

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

**REPORT ON THE AUDIT OF
FINANCIAL STATEMENTS IN ACCORDANCE
WITH OMB CIRCULAR A-133**

YEAR ENDED SEPTEMBER 30, 2012

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

**FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012**

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**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

**INDEPENDENT AUDITORS' REPORT,
FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION**

YEAR ENDED SEPTEMBER 30, 2012

INDEPENDENT AUDITORS' REPORT

Honorable Sebastian Anafel
Governor, State of Yap
Federated States of Micronesia:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Yap (the State) as of and for the year ended September 30, 2012, which collectively comprise the State's basic financial statements as set forth in Section II of the foregoing table of contents. These financial statements are the responsibility of the management of the State. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Public Transportation System, which represents 100% of the assets, net assets, and revenues of the State's business-type activities and 50%, 112%, and 24%, respectively, of the assets, net assets/fund balances, and revenues of the State's aggregate remaining fund information. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the Public Transportation System, is based solely on the report of the other auditors. The financial statements of the State of Yap as of and for the year ended September 30, 2011 were audited by other auditors whose report dated March 21, 2012 expressed a qualified opinion on those statements due to the omission of Yap Fishing Authority.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Management has not included Yap Fishing Authority and Gagil-Tomil Water Authority in the State's financial statements. Accounting principles generally accepted in the United States of America require Yap Fishing Authority and Gagil-Tomil Water Authority to be presented as component units and financial information about Yap Fishing Authority and Gagil-Tomil Water Authority to be part of the discretely presented component units' column, thus increasing the assets, liabilities, revenues, expenses, and changes net assets of the component units. The amount by which this departure would affect the assets, liabilities, net assets, revenues, and expenses of the discretely presented component units' column is not reasonably determinable.

In our opinion, because of the omission of Yap Fishing Authority and Gagil-Tomil Water Authority, as discussed in the third paragraph above, the financial statements of the State's aggregate discretely presented component units do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the discretely presented component units of the State of Yap as of September 30, 2012, or the changes in financial position thereof for the year then ended.

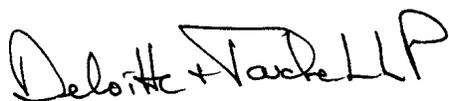
In addition, in our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the State of Yap as of September 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 11 to the financial statements, the beginning net assets of the governmental activities within the accompanying financial statements has been restated.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2013, on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, on pages 3 through 8, as well as the Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund and notes thereto, as set forth in Section III of the foregoing table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's financial statements. The combining and individual fund financial statements, as set forth in Section IV of the foregoing table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements, as set forth in Section IV of the foregoing table of contents, are fairly stated in all material respects in relation to the financial statements as a whole.



June 28, 2013

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Management's Discussion And Analysis
Year Ending September 30, 2012

This analysis, prepared by the Office of Administrative Services, offers readers of the Yap State Government's (Yap State) financial statements a narrative overview of the activities of the government for the fiscal year ended September 30, 2012. We encourage readers to consider this information in conjunction with Yap State's financial statements, which follow. Fiscal year 2011 comparative information has been included, where appropriate. This analysis is required by the Governmental Accounting Standards Board, (GASB) which provides guidelines on what must be included and excluded from this analysis.

FINANCIAL HIGHLIGHTS

- For the fiscal year ended September 30, 2012, Yap State's total net assets increased by \$0.8 million (or .04%) from \$85.1 million (as restated) in the prior year to \$85.9 million.
- In comparison to fiscal year 2011, revenues increased by \$9.9 million (or 52.1%), and total expenditures increased by \$2.1 million (or 8.3%). The significant increase in revenue was due to unrealized gains of \$8.8 million in the fair value of investments; \$5.2 million of which was attributed to the Yap Trust Fund and \$3.6 million were investment gains in other invested funds.
- Fiscal year 2012 revenues available for appropriation were \$3.8 million less than budgeted for the general fund. Actual expenditures were \$67,822 more than the final budgeted amount.
- At the end of fiscal year 2012, the Yap State Trust Fund reported a balance of \$35.7 million, which was an increase of \$5.2 million from the prior year, due to unrealized gains in the fair value of the investments.
- At the end of the fiscal year, the unassigned balance of the general fund was \$11.5 million. Beginning with fiscal year 2011, GASB 54 changed the classifications of fund balance, so as to more consistently apply and clarify fund balance definitions.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to Yap State's basic financial statements. Yap State's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional required supplementary information in the form of budgetary schedules, which are prepared on the budgetary basis of accounting, and other optional supplementary information, in addition to the basic financial statements themselves, which includes combining statements for governmental funds component units.

Government-Wide Financial Statements

The government-wide statements report information about Yap State as a whole using accounting methods similar to those used by private-sector companies. It provides both long-term and short-term information about the State's financial status.

The statement of net assets includes all the government's assets and liabilities. The difference in the two is called net assets. Over time, increases or decreases in the State's net assets serve as indicator to measure the State's financial position.

The statement of activities on the other hand, account for the State's current year's revenues and expenses regardless of when cash is received or paid.

STATE OF YAP
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Year Ending September 30, 2012

The government-wide financial statements of Yap State are divided into three categories:

- Governmental activities -- Most of Yap State's basic services are included here, such as education, health, special appropriations, finance, judiciary, and general administration. Federal grants finance most of these activities.
- Business-type activities -- Yap State reports the operations of its Public Transportation System, which charges tariffs to help cover the costs of the transportation services it provides.
- Component Units -- Yap State includes the operating results of the Yap Visitor's Bureau, the Yap State Public Service Corporation, the Yap Fishing Authority, and The Diving Seagull, Inc. in its report. Although legally separate, these "component units" are important because Yap State is financially accountable for them.

Fund Financial Statements

The fund financial statements provide more detailed information about Yap State's significant funds. Funds are accounting devices that Yap State uses to keep track of specific sources of funding and spending for particular services. The State uses fund accounting to comply with financial and related legal requirements

Yap State has two types of funds:

- Governmental funds. Most of Yap State's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can be readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance Yap State programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains and reconciles the relationship (or differences) between them.
- Proprietary funds. Services for which Yap State charge customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information.

FINANCIAL ANALYSIS OF YAP STATE AS A WHOLE

Net assets may serve over time as a useful indicator of a government's financial position. At the end of fiscal year 2012, Yap State's assets exceeded liabilities by \$85.8 million. Of its total net assets, \$12.5 million is restricted for specific use and \$25.6 million represents invested in capital assets (buildings, roads, etc.). Yap State uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although Yap State's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The following schedule summarizes Yap State's net assets as of September 30, 2012 with comparative figures for the prior year:

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Total</u>			
	2011		2011		2011		<u>Change</u>	<u>%</u>
	<u>2012</u>	<u>(As Restated)</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>(As Restated)</u>		
Assets:								
Current assets	\$ 24,470,740	\$ 28,247,904	\$ 142,892	\$ 207,910	\$ 24,613,632	\$ 28,455,814	\$ 5,983,551	21.03
Other assets	47,280,781	39,535,476	-	-	47,280,781	39,535,476	(3,141,552)	(7.74)
Capital assets, net	<u>24,961,581</u>	<u>27,304,205</u>	<u>641,332</u>	<u>676,431</u>	<u>25,602,913</u>	<u>27,980,636</u>	(4,350,756)	14.52
Total assets	<u>96,713,102</u>	<u>95,087,585</u>	<u>784,224</u>	<u>884,341</u>	<u>97,497,326</u>	<u>95,971,926</u>	(1,508,757)	(1.52)

STATE OF YAP
FEDERATED STATES OF MICRONESIA

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Liabilities:								
Current liabilities	6,076,310	4,689,799	20,482	149,581	6,096,792	4,839,360	(1,076,610)	(22.25)
Non-current liabilities	<u>5,544,920</u>	<u>6,017,392</u>	<u>-</u>	<u>-</u>	<u>5,544,920</u>	<u>6,017,392</u>	<u>(55,797)</u>	(0.93)
Total liabilities	<u>11,621,230</u>	<u>10,707,171</u>	<u>20,482</u>	<u>149,581</u>	<u>11,641,712</u>	<u>10,856,752</u>	<u>(1,132,407)</u>	(10.43)
Net assets:								
Invested in capital assets, net of related debt	24,961,581	27,304,205	641,332	676,431	25,602,913	27,980,636	(2,008,132)	(6.70)
Restricted	12,564,177	45,309,655	-	-	12,564,177	45,309,655	(31,889,911)	(68.77)
Unrestricted	<u>47,566,114</u>	<u>-</u>	<u>122,410</u>	<u>58,059</u>	<u>47,688,524</u>	<u>11,824,883</u>	<u>33,521,693</u>	283.48
Total net assets	\$ <u>85,091,872</u>	\$ <u>84,380,684</u>	\$ <u>763,742</u>	\$ <u>734,490</u>	\$ <u>85,855,614</u>	\$ <u>85,115,174</u>	<u>(376,350)</u>	(0.43)

At the end of fiscal year 2012, Yap State's unrestricted assets show a surplus of \$47.69 million (56% of total net assets). Included in this amount is the Yap State Investment Trust with a fiscal year end value of \$35.7 million. This unrestricted surplus is available for discretionary purposes subject to appropriation by the Yap State Legislature. In comparison to fiscal year 2011, as restated, Yap State's assets decreased by \$0.41 million. Key elements of the increase and the differences from the prior year are shown in the following schedule:

	Governmental Activities		Business Type Activities		Total			
	2011		2011		2011		Change	%
	2012	(As Restated)	2012	(As Restated)	2012	(As Restated)		
Revenues:								
Program Revenues:								
Charges for services	\$ 1,523,672	\$ 1,393,100	\$ 321,936	\$ 268,437	\$ 1,845,608	\$ 1,661,537	\$ 184,011	11.08
Operating grants and contributions	14,505,958	16,065,138	241,098	339,412	14,747,056	16,404,550	(1,657,494)	(10.10)
General Revenues:								
Taxes	3,375,900	3,390,198	-	-	3,375,900	3,390,198	14,298	0.42
Unrestricted investment (losses) earning	2,396,278	(2,150,394)	-	-	2,396,278	(2,150,394)	245,884	(11.43)
Other	<u>787,325</u>	<u>441,792</u>	<u>-</u>	<u>-</u>	<u>787,325</u>	<u>441,792</u>	<u>345,533</u>	78.21
Total revenues	<u>22,589,583</u>	<u>19,139,834</u>	<u>563,034</u>	<u>607,849</u>	<u>23,152,617</u>	<u>19,747,683</u>	<u>3,404,934</u>	17.24
Expenses:								
General government	5,031,043	4,317,738	562,458	486,109	5,593,501	4,803,847	789,654	16.44
Health Services	4,006,597	5,075,108	-	-	4,006,597	5,075,108	(1,068,511)	(21.05)
Education	5,755,249	6,144,711	-	-	5,755,249	6,144,711	(389,462)	(6.34)
Economic development	1,072,933	1,352,161	-	-	1,072,933	1,352,161	(279,228)	(20.65)
Public Safety	644,053	708,676	-	-	644,053	708,676	(64,623)	(9.12)
Public works and transportation	3,760,872	4,293,265	-	-	3,760,872	4,293,265	(532,393)	(12.40)
Community affairs	278,374	373,690	-	-	278,374	373,690	(95,316)	(25.51)
Boards and commissions	593,217	549,673	-	-	593,217	549,673	43,544	7.92
Payments to components	301,949	67,590	-	-	301,949	67,590	234,359	346.74
Judiciary	217,992	243,142	-	-	217,992	243,142	(25,150)	(10.34)
Public auditor	6,958	196,763	-	-	6,958	196,763	(189,805)	(96.46)
Other	<u>3,247,331</u>	<u>5,509,795</u>	<u>-</u>	<u>-</u>	<u>3,247,331</u>	<u>5,509,795</u>	<u>(2,262,464)</u>	(41.06)
Total expenses	<u>25,680,310</u>	<u>28,832,312</u>	<u>562,458</u>	<u>486,109</u>	<u>26,242,768</u>	<u>29,318,421</u>	<u>(3,075,633)</u>	(10.49)
Change in net assets	<u>(3,090,727)</u>	<u>(6,658,320)</u>	<u>576</u>	<u>121,740</u>	<u>(3,090,151)</u>	<u>(6,780,060)</u>	<u>3,689,909</u>	(54.42)

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Net assets at the beginning of the year, as restated	84,380,684	95,466,843	-	-	84,380,684	95,466,843	(11,086,159)	(11.61)
Contributions to permanent funds	6,657,898	-	-	-	6,657,898	-	-	0.00
Receivable written off	(2,826,281)	-	-	-	(2,826,281)	-	-	0.00
Prior period adjustment	<u>(3,034,158)</u>	<u>(659,191)</u>	<u>-</u>	<u>29,733</u>	<u>(3,034,158)</u>	<u>(629,458)</u>	<u>(2,404,700)</u>	382.03
Net assets at the end of the year	\$ <u>85,855,614</u>	\$ <u>85,115,174</u>	\$ <u>576</u>	\$ <u>151,473</u>	\$ <u>85,856,190</u>	\$ <u>85,266,647</u>	\$ <u>589,543</u>	0.69

Total revenues in fiscal year 2012 increased by \$3.45 million over prior year's \$19.1 million primarily due to gains on the fair value of investments. Most of the unrealized gains were in the Yap State Trust investments.

Most governmental activities expenses in fiscal year 2012 (of \$25.7 million) were at the same level as that of fiscal year 2011. However, an amount of \$2.8 million was written off from Accounts Receivables adding to the expenses for the year.

Fiscal year 2012 charges for business-type activities services increased by 20% which was offset by a decrease in the Yap State subsidy. There were no material changes in the Business-Type Activities assets or liabilities.

FINANCIAL ANALYSIS OF THE STATE GOVERNMENTAL FUNDS

As noted earlier, Yap State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. As of the end of fiscal year 2012, Yap State's governmental funds reported a combined fund balance of \$66.2 million, which represents an increase of \$2.88 million in comparison with fiscal year 2011, as restated. Of the total fund balance, \$53.3 million is nonspendable, restricted, or committed. These classifications indicate that the funds are not available for new spending because it is: 1) nonspendable because it is already committed to assets or is restricted by law or other stipulation (\$45.5 million); 2) restricted to liquidate contracts and purchase orders of the prior period (\$6.6 million); 3) restricted because the funds are already committed (\$1.3 million); and, 4) restricted and intended for a specific purpose (\$34.8 million). The unassigned combined fund balance is \$9.1 million. As mentioned above, GASB 54 was implemented in fiscal year 2011, which changed the classification definitions in the State's fund balance.

The State's governmental fund changes in fund balances for the years ended September 30, 2012 and 2011 are shown below.

	General Fund		Foreign Assistance Grant Fund		Yap State Investment Trust		Other Funds	
	2012	2011	2012	2011	2012	2011	2012	2011
Revenues:								
Taxes	\$ 3,258,473	\$ 3,390,198	\$ -	\$ -	\$ -	\$ -	\$ 117,427	\$ 127,190
Compact	-	-	11,188,414	11,826,279	-	-	-	-
Other/transfers in	<u>4,066,577</u>	<u>16,933</u>	<u>2,801,830</u>	<u>4,080,121</u>	<u>5,205,303</u>	<u>1,202,277</u>	<u>888,186</u>	<u>530,572</u>
Total revenues	7,325,050	3,407,131	13,990,244	15,906,400	5,205,303	1,202,277	1,005,613	657,762
Expenditures/transfers out	11,112,561	5,103,291	13,944,075	16,506,072	-	-	959,624	919,985
Prior period adjustment	<u>1,434,439</u>	<u>(287,809)</u>	<u>(2,495,564)</u>	<u>(358,063)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,081</u>
Net change in fund balances	\$ <u>(2,353,072)</u>	\$ <u>(1,983,969)</u>	\$ <u>(2,449,395)</u>	\$ <u>(957,735)</u>	\$ <u>5,205,303</u>	\$ <u>1,202,277</u>	\$ <u>45,989</u>	\$ <u>(261,142)</u>

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GENERAL FUND BUDGETARY HIGHLIGHTS

Yap State budgetary report is impacted by the financial market's performance. The market's performance during the fiscal year resulted in a \$2.4 million unrealized gain which contributed to the state's increase in revenues as compared to prior year. However, actual expenditures for the fiscal year were \$3.5 million more than the total revenues. Certain restatements occurred during the year which are further detailed in Note 11 to the financial statements.

Foreign Assistance Grants Fund

The Compact Sector funds are the dominant source of operating grants during fiscal year 2012. Activities in this fund was relatively stable during the year.

Yap State Investment Trust and Compact Trust Fund

Revenues for these funds are determined by the results of the State's investments. Those results are primarily based on improvement in the U.S. stock market, which is what transpired during fiscal year 2012.

The Compact Trust Fund results are not detailed above as the State exerts no controls over these investments.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Yap State's investment in capital assets for the primary government as of September 30, 2012, amounted to \$105.2 million, net of accumulated depreciation of \$84.4 million, leaving a net book value of \$24.9 million. This represents a net decrease of \$6.9 million from fiscal year 2011. The table below summarizes Yap State's capital assets:

	<u>2012</u>	<u>2011</u> <u>(As Restated)</u>	<u>Change</u>	<u>%</u>
Land	\$ 3,170,610	\$ 3,170,610	\$ -	0.00
Buildings	3,948,265	4,378,586	1,606,789	40.70
Equipment	473,163	281,067	,807,058	381.91
Heavy Equipment	488,407	624,993	136,586	27.97
Vehicles	339,257	530,864	415,325	122.42
Boats	2,848,543	3,054,616	419,249	14.72
Infrastructure	<u>13,693,336</u>	<u>15,263,469</u>	<u>2,540,266</u>	17.29
Total	<u>\$ 24,961,581</u>	<u>\$ 27,304,205</u>	<u>\$ 6,925,273</u>	26.68

Additional information on Yap State's capital assets can be found in Note 5 to the financial statements.

Long-Term Debt

Long-term debt obligations of the Yap State primary government totaled \$5.54 million at September 30, 2012. This debt is comprised of the non-current portion of the following ADB Loans: Early Retirement Program Loan, Private Sector Development Loan, and the Basic Social Services Loan with all three adding to \$5.07 million, liability for compensated absences of \$0.23 million, and long-term payments due under land purchase agreements of \$0.24 million. Principal payments on the outstanding ADB loans began in 2008 and are partially covered by \$1.7 million deposited in a restricted investment account jointly held with the FSM National Government.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Management's Discussion And Analysis
Year Ending September 30, 2012

Additional information on Yap States long-term debt obligations can be found in note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

As with the rest of the FSM, Yap State had to address the financial constraints from the Amended Compact annual decrements, increased costs of providing basic public services, and lack of new revenue source. As other economic factors in the local economy remain relatively stagnant, Yap State's recourse was to identify budget items that could be reduced or eliminated through a long term fiscal framework process.

Yap State management also maintains a cautious approach with respect to funding from Compact sector grants, currently comprising 39% of Yap State's revenues. The delayed implementation of the public infrastructure grants, and the uncertainties concerning decisions made by the U.S. Department of Interior in its interpretation of the *Fiscal Procedures Agreement* --- continues to inform Yap State's prudent choices and conservative projections with respect to Compact sector funding in fiscal year 2013 and beyond.

Yap State Government continued its commitment to sound financial discipline by establishing a trust fund two years prior. However, the consistent rise in inflationary costs combined with no expected new growth in the local economy mandates the state to begin considering revisions in financial policy and procedures so that its efforts to provide efficient and effective essential public services are not compromised in the near future.

CONTACTING YAP STATE'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors, a general overview of Yap State's finances to demonstrate its accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Director, Office of Administrative Services, P.O Box 610, Yap, FM 96943.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Net Assets
September 30, 2012

	Primary Government		Total	Component Units
	Governmental Activities	Business-Type Activities		
<u>ASSETS</u>				
Current assets:				
Cash and cash equivalents	\$ 961,343	\$ 11,814	\$ 973,157	\$ 6,775,561
Time certificates of deposit	-	-	-	1,566,000
Investments	21,143,326	-	21,143,326	498,401
Receivables, net of allowance for uncollectibles	997,179	2,616	999,795	3,156,000
Due from component units	6,466	-	6,466	-
Advances	539,317	-	539,317	-
Inventories	-	115,660	115,660	1,127,846
Other current assets	-	12,802	12,802	134,825
Restricted assets:				
Cash and cash equivalents	823,109	-	823,109	-
Total current assets	<u>24,470,740</u>	<u>142,892</u>	<u>24,613,632</u>	<u>13,258,633</u>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	-	-	-	206,290
Time certificates of deposit	-	-	-	2,023,901
Investments	45,280,781	-	45,280,781	-
Investments	2,000,000	-	2,000,000	-
Capital assets:				
Nondepreciable capital assets	3,170,610	-	3,170,610	116,519
Capital assets, net of accumulated depreciation	<u>21,790,971</u>	<u>641,332</u>	<u>22,432,303</u>	<u>12,664,701</u>
Total noncurrent assets	<u>72,242,362</u>	<u>641,332</u>	<u>72,883,694</u>	<u>15,011,411</u>
Total assets	<u>\$ 96,713,102</u>	<u>\$ 784,224</u>	<u>\$ 97,497,326</u>	<u>\$ 28,270,044</u>
<u>LIABILITIES</u>				
Current liabilities:				
Current portion of long-term obligations	\$ 166,307	\$ -	\$ 166,307	\$ 976,088
Accounts payable	1,489,542	11,909	1,501,451	2,015,782
Compensated absences payable, net of current portion	400,000	-	400,000	-
Accrued interest payable	14,872	-	14,872	-
Other liabilities and accruals	299,646	7,025	306,671	960,422
Deferred revenue	<u>3,705,943</u>	<u>1,548</u>	<u>3,707,491</u>	<u>55,340</u>
Total current liabilities	<u>6,076,310</u>	<u>20,482</u>	<u>6,096,792</u>	<u>4,007,632</u>
Noncurrent liabilities:				
Noncurrent portion of long-term obligations	5,066,123	-	5,066,123	6,705,478
Compensated absences payable	229,189	-	229,189	-
Other noncurrent liabilities	<u>249,608</u>	<u>-</u>	<u>249,608</u>	<u>-</u>
Total noncurrent liabilities	<u>5,544,920</u>	<u>-</u>	<u>5,544,920</u>	<u>6,705,478</u>
Total liabilities	<u>11,621,230</u>	<u>20,482</u>	<u>11,641,712</u>	<u>10,713,110</u>
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	24,961,581	641,332	25,602,913	6,438,879
Restricted for:				
Nonexpendable:				
Future operations	7,825,732	-	7,825,732	-
Expendable:				
Compact related	2,917,358	-	2,917,358	-
Debt service	1,731,838	-	1,731,838	-
Other purposes	89,249	-	89,249	4,161,242
Unrestricted	<u>47,566,114</u>	<u>122,410</u>	<u>47,688,524</u>	<u>6,956,813</u>
Total net assets	<u>85,091,872</u>	<u>763,742</u>	<u>85,855,614</u>	<u>17,556,934</u>
Total liabilities and net assets	<u>\$ 96,713,102</u>	<u>\$ 784,224</u>	<u>\$ 97,497,326</u>	<u>\$ 28,270,044</u>

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Activities
Year Ended September 30, 2012

Functions/Programs	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets			Component Units
	Expenses	Operating		Primary Government			
		Charges for Services	Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary government:							
Governmental activities:							
Judiciary	\$ 217,992	\$ -	\$ -	\$ (217,992)	\$ -	\$ (217,992)	\$ -
Councils of traditional leaders	202,589	-	-	(202,589)	-	(202,589)	-
Public auditor	6,958	-	-	(6,958)	-	(6,958)	-
General government	5,031,043	1,201,736	2,692,048	(1,137,259)	-	(1,137,259)	-
Economic development	1,072,932	-	884,933	(187,999)	-	(187,999)	-
Public safety	644,053	-	-	(644,053)	-	(644,053)	-
Community affairs	278,374	-	-	(278,374)	-	(278,374)	-
Education	5,755,249	-	5,408,842	(346,407)	-	(346,407)	-
Public works and transportation	3,760,872	-	779,302	(2,981,570)	-	(2,981,570)	-
Health services	4,006,597	-	3,771,887	(234,710)	-	(234,710)	-
Boards and commissions	593,218	-	343,380	(249,838)	-	(249,838)	-
Payments to components	301,949	-	301,949	-	-	-	-
Other appropriations	2,806,279	-	-	(2,806,279)	-	(2,806,279)	-
Interest expense	439,747	-	82,569	(357,178)	-	(357,178)	-
Total governmental activities	<u>25,117,852</u>	<u>1,201,736</u>	<u>14,264,910</u>	<u>(9,651,206)</u>	<u>-</u>	<u>(9,651,206)</u>	<u>-</u>
Business-type activities:							
Public Transportation System	562,458	321,936	241,048	-	526	526	-
Total primary government	<u>\$ 25,680,310</u>	<u>\$ 1,523,672</u>	<u>\$ 14,505,958</u>	<u>(9,651,206)</u>	<u>526</u>	<u>(9,650,680)</u>	<u>-</u>
Component units:							
Yap Visitor's Bureau	\$ 304,537	\$ -	\$ -	-	-	-	(304,537)
Yap State Public Service Corporation	6,789,033	6,063,666	762,219	-	-	-	36,852
The Diving Seagull, Inc.	10,588,649	16,527,562	-	-	-	-	5,938,913
Total component units	<u>\$ 17,682,219</u>	<u>\$ 22,591,228</u>	<u>\$ 762,219</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,671,228</u>
General revenues:							
Taxes:							
FSM revenue sharing:							
Gross revenue taxes				767,416	-	767,416	-
Import taxes				570,383	-	570,383	-
Income taxes				563,821	-	563,821	-
Other taxes				235,234	-	235,234	-
State taxes				1,239,046	-	1,239,046	-
Unrestricted investment earnings				2,396,278	-	2,396,278	13,812
Contributions from primary government				-	-	-	1,146,654
Interest expense				-	-	-	(302,701)
Other				758,599	28,726	787,325	(384,858)
				<u>6,530,777</u>	<u>28,726</u>	<u>6,559,503</u>	<u>472,907</u>
Special item:							
Write-off of receivables				(2,826,281)	-	(2,826,281)	-
Contributions to permanent funds				6,657,898	-	6,657,898	-
Total general revenues, special items and contributions				<u>10,362,394</u>	<u>28,726</u>	<u>10,391,120</u>	<u>472,907</u>
Change in net assets				<u>711,188</u>	<u>29,252</u>	<u>740,440</u>	<u>6,144,135</u>
Net assets at the beginning of the year, as previously reported							
				87,414,842	734,490	88,149,332	10,243,967
Prior period adjustment (note 11)				(3,034,158)	-	(3,034,158)	1,168,832
Net assets at the beginning of the year, as restated							
				<u>84,380,684</u>	<u>734,490</u>	<u>85,115,174</u>	<u>11,412,799</u>
Net assets at the end of the year							
				<u>\$ 85,091,872</u>	<u>\$ 763,742</u>	<u>\$ 85,855,614</u>	<u>\$ 17,556,934</u>

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Balance Sheet
Governmental Funds
September 30, 2012

	General	Special Revenue	Permanent		Other Governmental Funds	Total
		Foreign Assistance Grants	Yap State Investment Trust	Compact Trust		
ASSETS						
Cash and cash equivalents	\$ 709,104	\$ -	\$ -	\$ -	\$ 252,239	\$ 961,343
Investments	19,762,734	3,380,592	-	-	-	23,143,326
Receivables, net:						
Federal agencies	-	258,548	-	-	-	258,548
FSM National Government	617,528	-	-	-	28,968	646,496
Other	73,535	18,600	-	-	-	92,135
Due from other funds	3,632,458	6,198,481	-	-	305,587	10,136,526
Due from component units	6,466	-	-	-	-	6,466
Advances	134,762	404,555	-	-	-	539,317
Restricted assets:						
Cash and cash equivalents	823,109	-	-	-	-	823,109
Investments	1,731,838	-	35,723,211	7,825,732	-	45,280,781
Total assets	\$ 27,491,534	\$ 10,260,776	\$ 35,723,211	\$ 7,825,732	\$ 586,794	\$ 81,888,047
LIABILITIES AND FUND BALANCES (DEFICIT)						
Liabilities:						
Accounts payable	\$ 912,620	\$ 521,441	\$ -	\$ -	\$ 55,481	\$ 1,489,542
Other liabilities and accruals	153,605	141,302	-	-	4,739	299,646
Deferred revenue	140,020	3,473,268	-	-	92,655	3,705,943
Due to other funds	6,504,068	3,118,158	-	-	514,300	10,136,526
Total liabilities	7,710,313	7,254,169	-	-	667,175	15,631,657
Fund balances:						
Non-spendable	2,000,000	-	35,723,211	7,825,732	-	45,548,943
Restricted	1,731,838	4,767,024	-	-	98,878	6,597,740
Committed	754,074	150,000	-	-	369,855	1,273,929
Assigned	3,751,558	-	-	-	1,180	3,752,738
Unassigned:						
General fund	11,543,751	-	-	-	-	11,543,751
Special revenue funds	-	(1,910,417)	-	-	(550,294)	(2,460,711)
Total fund balances (deficit)	19,781,221	3,006,607	35,723,211	7,825,732	(80,381)	66,256,390
Total liabilities and fund balances	\$ 27,491,534	\$ 10,260,776	\$ 35,723,211	\$ 7,825,732	\$ 586,794	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds

24,961,581

Long-term liabilities, including loans payable, are not due and payable in the current period and, therefore, are not reported in the funds. The liabilities include:

Long-term debt payable (5,232,430)
Compensated absences payable (629,189)
Accrued interest payable (14,872)
Land acquisition claims payable (249,608)

(6,126,099)

Net assets of governmental activities

\$ 85,091,872

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)
Governmental Funds
Year Ended September 30, 2012

	General	Special Revenue	Permanent		Other Governmental Funds	Total
		Foreign Assistance Grants	Yap State Investment Trust	Compact Trust		
Revenues:						
Compact funding	\$ -	\$ 11,188,414	\$ -	\$ -	\$ -	\$ 11,188,414
Net change in the fair value of investments	2,396,278	-	5,205,303	1,239,975	-	8,841,556
Federal contributions and other grants	-	2,359,984	-	-	-	2,359,984
FSM revenue sharing	2,136,854	-	-	-	-	2,136,854
State taxes	1,121,619	-	-	-	117,427	1,239,046
CFSM grants	-	100,627	-	-	615,885	716,512
Fees and charges	264,791	-	-	-	238,627	503,418
Departmental charges	681,126	17,192	-	-	-	698,318
Other	724,382	543	-	212,620	33,674	971,219
Total revenues	7,325,050	13,666,760	5,205,303	1,452,595	1,005,613	28,655,321
Expenditures:						
Current:						
Judiciary	205,068	-	-	-	-	205,068
Councils of traditional leaders	197,904	-	-	-	-	197,904
General government	1,423,547	2,960,326	-	-	755,029	5,138,902
Economic development	138,920	680,338	-	-	204,595	1,023,853
Public safety	565,707	-	-	-	-	565,707
Community affairs	252,046	-	-	-	-	252,046
Education	-	5,408,842	-	-	-	5,408,842
Public works and transportation	1,582,040	779,302	-	-	-	2,361,342
Health services	278,179	3,771,887	-	-	-	4,050,066
Boards and commissions	150,821	343,380	-	-	-	494,201
Payments to component units	301,949	-	-	-	-	301,949
Other appropriations	2,509,437	-	-	-	-	2,509,437
Debt service	357,178	-	-	-	82,569	439,747
Total expenditures	7,962,796	13,944,075	-	-	959,624	22,949,064
Excess (deficiency) of revenues over (under) expenditures	(637,746)	(277,315)	5,205,303	1,452,595	45,989	5,706,257
Other financing sources (uses):						
Operating transfers in	-	323,484	-	-	-	323,484
Operating transfers out	(323,484)	-	-	-	-	(323,484)
Total other financing sources (uses), net	(323,484)	323,484	-	-	-	-
Special item:						
Write-off of receivables	(2,826,281)	-	-	-	-	(2,826,281)
Net change in fund balances (deficit)	(3,787,511)	46,169	5,205,303	1,452,595	45,989	2,879,976
Fund balances (deficit) at the beginning of the year, as previously reported	22,134,293	5,456,002	30,517,908	6,373,137	(43,801)	64,437,539
Prior period adjustment (note 11)	1,434,439	(2,495,564)	-	-	-	(1,061,125)
Fund balances (deficit) at the beginning of the year, as restated	23,568,732	2,960,438	30,517,908	6,373,137	(43,801)	63,376,414
Fund balances (deficit) at the end of the year	\$ 19,781,221	\$ 3,006,607	\$ 35,723,211	\$ 7,825,732	\$ 2,188	\$ 66,256,390

See accompanying notes to financial statements.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended September 30, 2012

Amounts reported for governmental activities in the statement of activities on page 10 are different from the fund balances because:

Net change in fund balances - total governmental funds from page 12	\$ 2,787,647
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period, including increases to construction in progress	(2,342,624)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds. These expenses include accrued annual leave and interest payable that are reported in the statement of activities, but not in funds	(28,905)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. This amount is the net effect of these differences in the treatment of long - term debt and related items	<u>202,741</u>
Change in net assets of governmental activities as presented on page 10.	\$ <u><u>618,859</u></u>

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Net Assets
Proprietary Funds
September 30, 2012

	<u>Public Transportation System</u>
<u>ASSETS</u>	
Current assets:	
Cash and cash equivalents	\$ 11,814
Receivables, net of allowance for uncollectibles	2,616
Inventories	115,660
Other current assets	12,802
Total current assets	<u>142,892</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>641,332</u>
Total assets	<u>\$ 784,224</u>
<u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	\$ 11,909
Other liabilities and accruals	7,025
Deferred revenue	1,548
Total liabilities	<u>20,482</u>
<u>NET ASSETS</u>	
Invested in capital assets	641,332
Unrestricted	122,410
Total net assets	<u>763,742</u>
	<u>\$ 784,224</u>

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
Year Ended September 30, 2012

	<u>Public Transportation System</u>
Operating revenues:	
Charges for services	\$ 234,237
Sales	87,699
Total operating revenues	<u>321,936</u>
Operating expenses:	
Cost of services	342,488
Administration costs	203,568
Depreciation and amortization	16,402
Total operating expenses	<u>562,458</u>
Operating loss	<u>(240,522)</u>
Nonoperating revenues:	
Other	<u>28,726</u>
Total nonoperating expenses	<u>28,726</u>
Loss before operating transfers	(211,796)
Operating transfers in	<u>241,048</u>
Change in net assets	29,252
Net assets at the beginning of the year, as restated	<u>734,490</u>
Net assets at the end of the year	<u><u>\$ 763,742</u></u>

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Cash Flows
Proprietary Funds
Year Ended September 30, 2012

	<u>Public Transportation System</u>
Cash flows from operating activities:	
Cash received from customers	\$ 433,612
Cash payments to employees	(150,706)
Cash payments to suppliers	(286,803)
Net cash used in operating activities	<u>(3,897)</u>
Cash flows from noncapital financing activities:	
Contributions from the primary government	241,048
Other income (expense)	109
Decrease in deferred revenue	(109,429)
Net cash provided by noncapital financing activities	<u>131,728</u>
Cash flows from capital and related financing activities:	
Other income	50
Purchases of capital assets	(141,261)
Net cash used in capital and related financing activities	<u>(141,211)</u>
Net change in cash and cash equivalents	(13,380)
Cash and cash equivalents at the beginning of the year	<u>25,194</u>
Cash and cash equivalents at the end of the year	<u><u>\$ 11,814</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (240,522)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	130,670
Changes in assets and liabilities:	
Receivables	5,583
Purchase order advance	109,429
Inventory	(14,856)
Other current assets	2,759
Accounts payable	5,829
Accrued expenses	547
Deferred revenue	(3,336)
Net cash used in operating activities	<u><u>\$ (3,897)</u></u>

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Combining Statement of Net Assets
Component Units
September 30, 2012

	<u>Yap Visitor's Bureau</u>	<u>Yap State Public Service Corporation</u>	<u>The Diving Seagull, Inc.</u>	<u>Total</u>
<u>ASSETS</u>				
Current assets:				
Cash and cash equivalents	\$ 73,480	\$ 1,446,558	\$ 5,255,523	\$ 6,775,561
Time certificate of deposit	-	-	1,566,000	1,566,000
Investments	-	-	498,401	498,401
Receivables, net:				
General	120,601	1,196,653	1,496,575	2,813,829
Other	-	299,321	42,850	342,171
Inventories	-	777,846	350,000	1,127,846
Other current assets	-	31,562	103,263	134,825
Total current assets	<u>194,081</u>	<u>3,751,940</u>	<u>9,312,612</u>	<u>13,258,633</u>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	-	-	206,290	206,290
Time certificate of deposit	-	-	2,023,901	2,023,901
Capital assets:				
Nondepreciable capital assets	-	116,519	-	116,519
Capital assets, net of accumulated depreciation	<u>713</u>	<u>7,895,778</u>	<u>4,768,210</u>	<u>12,664,701</u>
Total noncurrent assets	<u>713</u>	<u>8,012,297</u>	<u>6,998,401</u>	<u>15,011,411</u>
Total assets	<u>\$ 194,794</u>	<u>\$ 11,764,237</u>	<u>\$ 16,311,013</u>	<u>\$ 28,270,044</u>
<u>LIABILITIES</u>				
Current liabilities:				
Current portion of long-term debt	\$ -	\$ 320,526	\$ 655,562	\$ 976,088
Accounts payable	-	414,486	1,601,296	2,015,782
Deferred revenue	-	55,340	-	55,340
Other liabilities and accruals	<u>9,349</u>	<u>417,749</u>	<u>533,324</u>	<u>960,422</u>
Total current liabilities	9,349	1,208,101	2,790,182	4,007,632
Noncurrent liabilities:				
Noncurrent portion of long-term debt	<u>-</u>	<u>4,017,176</u>	<u>2,688,302</u>	<u>6,705,478</u>
Total liabilities	<u>9,349</u>	<u>5,225,277</u>	<u>5,478,484</u>	<u>10,713,110</u>
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	713	5,013,820	1,424,346	6,438,879
Restricted, expendable	-	1,931,051	2,230,191	4,161,242
Unrestricted	<u>184,732</u>	<u>(405,911)</u>	<u>7,177,992</u>	<u>6,956,813</u>
Total net assets	<u>185,445</u>	<u>6,538,960</u>	<u>10,832,529</u>	<u>17,556,934</u>
	<u>\$ 194,794</u>	<u>\$ 11,764,237</u>	<u>\$ 16,311,013</u>	<u>\$ 28,270,044</u>

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Combining Statement of Revenues, Expenses, and Changes in Net Assets
Component Units
Year Ended September 30, 2012

	Yap Visitor's Bureau	Yap State Public Service Corporation	The Diving Seagull, Inc.	Total
Operating revenues:				
Charges for services	\$ -	\$ 5,567,442	\$ 73,198	\$ 5,640,640
Sales	-	496,224	16,454,364	16,950,588
Total operating revenues	<u>-</u>	<u>6,063,666</u>	<u>16,527,562</u>	<u>22,591,228</u>
Operating expenses:				
Cost of services	71,492	4,997,315	10,378,634	15,447,441
Administration costs	224,112	1,044,127	209,487	1,477,726
Depreciation and amortization	8,933	747,591	528	757,052
Total operating expenses	<u>304,537</u>	<u>6,789,033</u>	<u>10,588,649</u>	<u>17,682,219</u>
Operating income (loss)	<u>(304,537)</u>	<u>(725,367)</u>	<u>5,938,913</u>	<u>4,909,009</u>
Nonoperating revenues (expenses):				
Contributions from the primary government	299,877	846,777	-	1,146,654
Interest income	6,775	7,037	-	13,812
Interest expense	-	(17,724)	(284,977)	(302,701)
Other	-	(522,057)	137,199	(384,858)
Total nonoperating revenues (expenses), net	<u>306,652</u>	<u>314,033</u>	<u>(147,778)</u>	<u>472,907</u>
Capital contributions	-	762,219	-	762,219
Change in net assets	<u>2,115</u>	<u>350,885</u>	<u>5,791,135</u>	<u>6,144,135</u>
Net assets at the beginning of the year, as previously reported	183,330	5,019,243	5,041,394	10,243,967
Prior period adjustment (note 11)	-	1,168,832	-	1,168,832
Net assets at the beginning of the year, as restated	<u>183,330</u>	<u>6,188,075</u>	<u>5,041,394</u>	<u>11,412,799</u>
Net assets at the end of the year	<u>\$ 185,445</u>	<u>\$ 6,538,960</u>	<u>\$ 10,832,529</u>	<u>\$ 17,556,934</u>

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies

The State of Yap (the State) was constituted on December 24, 1982, under the provisions of the Yap State Constitution (the Constitution) as approved by the people of Yap. The Constitution provides for the separation of powers of the executive, legislative, and judicial branches of the government.

The accompanying financial statements of the State have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the State's accounting policies are described below.

A. Reporting Entity

The State is one of the four states that make up the Federated States of Micronesia (FSM), along with the states of Chuuk, Kosrae and Pohnpei. The State is a constitutional government comprised of three branches: the Legislative Branch, consisting of 10 members elected for a term of four years by qualified voters of their respective election districts; the Executive Branch, headed by the Governor and Lt. Governor who are primarily responsible for executing the laws and administering state government services; and the Judiciary Branch made up of the State Supreme Court, which consists of a Chief Justice and two Associate Justices, and other courts that may be created by law. The State also has traditional leaders that serve in the Council of Pilung and the Council of Tamol that advise the State on matters concerning customary law and traditional practice.

For financial reporting purposes, the State has included all funds, organizations, agencies, boards, commissions and institutions. The State has also considered all potential component units for which it is financially accountable as well as other entities for which the nature and significance of their relationship with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. The criteria to be considered in determining financial accountability include whether the State, as the primary government, has appointed a voting majority of an organization's governing body and either has the ability to impose its will on that organization or there is potential for the organization to provide specific financial benefits to or impose specific financial burdens on the State. Financial accountability also exists if an organization is determined to be fiscally dependent on the primary government, although the primary government does not appoint a voting majority of the organization's governing board.

Each blended and discretely presented component unit of the State has a September 30 year-end.

Once financial accountability has been determined for a potential component unit, that component unit is either blended into the primary government or discretely presented from the primary government. Potential component units that do not meet the financial accountability criteria, but where a voting majority of the governing board is appointed by the State, are deemed to be related organizations. The nature and relationship of the State's component units and related organizations are disclosed in the following section.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

Blended component units are entities that are legally separate from the State, but are so related to the State that they are, in substance, the same as the State or entities providing services entirely or almost entirely to the State. The net assets and results of operations of the following legally separate entities are presented as part of the State's operations:

Proprietary Fund:

Public Transportation System (PTS) PTS was created by Yap State Law (YSL) No. 1-170 and is responsible for the provision of reliable and inexpensive transportation for those people living outside of the Colonia area. PTS is governed by a five-member Board of Directors appointed by the Governor subject to the advice and consent of the Legislature. The State provides financial support to PTS through legislative appropriations.

Discretely Presented Component Units:

Discretely presented component units are entities which are legally separate from the State, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's basic financial statements to be misleading or incomplete. The component units' column of the basic financial statements includes the financial data of the following major component units:

Yap Visitor's Bureau (YVB): YVB was created by YSL No. 4-25 and is responsible for the promotion of Yap as a tourist destination. YVB is governed by a seven-member Board of Directors, of which five members are appointed by the Governor subject to the advice and consent of the Legislature, one member is appointed by the Speaker of the Legislature, and one member is elected by the six appointed members. The State provides financial support to YVB through legislative appropriations.

Yap State Public Service Corporation (YSPSC): YSPSC was created by YSL No. 4-4 and is responsible for the delivery of electricity, water and sewer in the State. YSPSC is governed by a seven-member Board of Directors appointed by the Governor subject to the advice and consent of the Legislature. The State provides financial support to YSPSC through legislative appropriations.

The Diving Seagull, Inc. (DSI): DSI was incorporated in the State on March 17, 1997 and was organized primarily to pursue fishing and other fishing related activities by operating fishing vessels, marketing and selling fish, and developing cold storage and/or transshipment facilities. DSI is governed by a five-member Board of Directors. The State has the ability to impose its will on DSI.

The State's component units, departments, and funds that are separately audited issue their own financial statements. These statements may be obtained by directly contacting the various entities or obtaining them directly from the Office of the Public Auditor at the following address:

P.O. Box 927
Colonia, Yap, FSM 96943

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

Omitted Component Units

The following component units have been omitted from the basic financial statements due to the lack of available financial information:

Gagil-Tomil Water Authority (GTWA): GTWA was created by YSL No. 1-183 and is responsible for the provision of services in the operation and maintenance of the Gagil-Tomil Water System. GTWA is governed by a nine-member Board of Directors, four of which are appointed by the Gagil member of the Council of Pilung, four appointed by the Tomil member of the Council of Pilung, and one appointed by the Governor. The financial activities of this omitted component unit are considered material to the basic financial statements.

Southern Yap Water Authority (SYWA): SYWA was created by YSL No. 1-221 and is responsible for the operation and maintenance of the Southern Yap Water System. SYWA is governed by a six-member Board of Directors, of which one is appointed by the Governor, two members who are appointed by the Municipal Chief of Rull on the Council of Pilung, one of whom shall be from either Lamer or Luwech Villages, and three members who are appointed by the municipal chiefs of Gilman, Kanifay, and Dalipebinaw on the Council of Pilung. The financial activities of this omitted component unit are not considered material to the basic financial statements.

Yap Fishing Authority (YFA): YFA was created by Yap District Law (YDL) No. 6-13 and is responsible for the promotion, development, and supporting of commercial utilization of living marine resources within the State. YFA is governed by a five-member Board of Directors appointed by the Governor subject to the advice and consent of the Legislature. The financial activities of this omitted component unit are considered material to the basic financial statements.

Yap Sports Council (YSC): YSC was created by YSL No. 4-65 and is responsible for promoting and encouraging sports participation at all levels of society. YSC is governed by an eleven-member Board of Directors, of which three members are appointed by the Governor subject to the advice and consent of the Legislature, two members are appointed by the Speaker of the Legislature, two members are appointed by the Council of Pilung, two members are appointed by the Council of Tamol, and two members are appointed by the Congress of the FSM National Government. The financial activities of this omitted component unit are not considered material to the basic financial statements.

B. Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities report financial information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been eliminated from these statements except for other charges between the primary government and the discretely presented component units. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide Financial Statements, Continued

Primary government activities are defined as either governmental or business-type activities. Governmental activities, which normally are supported by taxes, intergovernmental revenues and other non-exchange revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties for goods or services. As such, business-type activities account for operations similarly to a for-profit business. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. Discretely presented component unit activities are presented with their business-type focus.

The Statement of Net Assets presents all of the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.
- Restricted net assets - nonexpendable consists of permanent funds in which donors or other outside sources have stipulated that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to the principal.
- Restricted net assets - expendable consists of resources in which the State is legally or contractually obligated to spend resources in accordance with restrictions either externally imposed by creditors, grantors, contributors, and the like, or imposed by law.
- Unrestricted net assets consist of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated (for example, internally restricted), to indicate that management does not consider them to be available for general operations.

The government-wide Statement of Net Assets reports \$12,564,177 of restricted net assets, of which \$89,249 is restricted by enabling legislation.

The Statement of Activities demonstrates the degree to which the direct expenses of given functions or segments are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are, instead, reported as general revenue.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

C. Fund Financial Statements

The fund financial statements present a balance sheet and a statement of revenues, expenditures, and changes in fund balances for its major and aggregated non-major funds. Major individual governmental funds are reported as separate columns in the fund financial statements pursuant to GASB reporting standards, with nonmajor governmental funds being combined into a single column.

The State reports its financial position and results of operations in funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. Transactions between funds within a fund type, if any, have not been eliminated.

D. Measurement Focus and Basis of Accounting

Government-wide Financial Statements:

The government-wide financial statements are reported using the economic resources management focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. General revenue is derived from taxation, investment income and other fees that are not allocated to specific programs.

Governmental Fund Financial Statements:

Governmental fund financial statements account for the general governmental activities of the State and are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

Governmental Fund Financial Statements, Continued:

Significant revenues susceptible to accrual include income and gross revenue taxes, federal grants, federal reimbursements and other reimbursements for use of materials and services. Miscellaneous revenues from other financing sources are recognized when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures generally are recorded in the period in which the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Component Unit Financial Statements:

Discretely presented component units distinguish operating revenues and expenses from nonoperating items. Operating revenues generally result from providing services and producing and delivering goods in connection with a discretely presented component unit's principal ongoing operations. All other revenues are reported as nonoperating. Operating expenses includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments: Omnibus*, sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses for either fund category or the governmental and enterprise combined) for the determination of major funds. The State has elected to add an additional major fund that is of specific public interest, namely the Compact Trust Fund. Major individual governmental funds are reported as separate columns in the fund financial statements. The nonmajor funds are combined in a column in the fund financial statements and detailed in the combining statements. The State reports the following major funds:

General Fund - this fund is the primary operating fund of the State. It is used to account for all governmental transactions, except those required to be accounted for in another fund.

Grants Assistance Fund - a Special Revenue Fund that accounts for funds received under sector grants pursuant to the amended Compact of Free Association; all financial transactions of federally assisted funds, which are subgranted to the State, as well as other direct federal grants that the State received from the United States government, and foreign assistance grants.

Yap State Investment Trust Fund - a Permanent Fund that accounts for certain invested funds established by YSL 7-17 to provide for future State needs. All earnings of the Fund accrue to the fund.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

Section 215 Compact Trust Fund - a Permanent Fund that accounts for the State's contributions to the Trust Fund established in accordance with Section 215 of the Compact of Free Association, as amended, to provide for an additional source of revenue for the government budget that will be needed to substitute for the absence of Compact of Free Association funding.

E. Reporting Standards

As allowed by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the State's proprietary funds and discretely presented component units follow all GASB pronouncements and those Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

F. Cash and Cash Equivalents and Time Certificates of Deposit

Cash and cash equivalents of the primary government and the discretely presented component units include cash held in demand accounts as well as short-term investments with a maturity date within three months of the date acquired by the State. Deposits maintained in time certificates of deposit with original maturity dates greater than three months are separately classified on the statement of net assets/balance sheet.

G. Investments

Investments and related investment earnings of the primary government and the discretely presented component units are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. When market prices of equity investments in companies are not readily determinable, the investments are carried at cost if less than twenty percent of the companies' total equity is owned, on the equity method if greater than twenty percent and less than fifty percent is owned, and on a consolidated basis if greater than fifty percent is owned.

H. Receivables

In general, tax revenue is recognized on the government-wide statements, when assessed or levied and on the governmental fund financial statements to the extent that it is both measurable and available. Receivables are stated net of estimated allowances for uncollectible accounts. Reimbursements due to the State for expenditures on federally funded reimbursement and grant programs are reported as "receivables from federal agencies".

Receivables of the primary government and the discretely presented component units are primarily due from businesses and individuals residing in the State. The State establishes an allowance for doubtful accounts receivable based on the credit risk of specific customers, historical trends and other information.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

I. Prepaid Items

Certain payments made to vendors or persons for services reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

J. Interfund Receivables/Payables

During the course of its operations, the State records transactions between individual funds for goods provided or services rendered. Receivables and payables resulting from transactions between funds are classified as "due from other funds" or "due to other funds" on the governmental fund balance sheet.

These balances result from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made, and are scheduled to be collected in the subsequent year.

K. Inventories

Inventories of the discretely presented component units are determined by physical count and are valued at the lower of cost or market by the first-in first-out method (FIFO).

L. Restricted Assets

Certain assets of the primary government are classified as restricted assets because their use is completely restricted through loan agreements or enabling legislation. Specifically, the State has collateralized Asian Development Bank loan proceeds and earnings for the Yap State Early Retirement Scheme with investments recorded in the General Fund of \$1,731,838. Furthermore, investments recorded in the Yap State Investment Trust Fund of \$35,723,211 are restricted pursuant to YSL 7-17, and investments recorded in the Compact Trust Fund of \$7,825,732 are restricted in that they are not available to be used for current operations.

As of September 30, 2012, cash and cash equivalents of the primary government and the discretely presented component units were restricted for the following uses:

Primary Government

Savings accounts established in accordance with Section 211(d)(2) of the Compact of Free Association, as amended, for the purpose of funding the State's infrastructure maintenance plan	\$ 30,292
Deposit accounts established for the purpose of receiving payments pursuant to the Compact of Free Association, as amended	<u>792,817</u>
	\$ <u>823,109</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

L. Restricted Assets, Continued

Discretely Presented Component Units

The Diving Seagull, Inc.:

Time certificate of deposit restricted as collateral for long-term debt with a bank.	\$ 2,023,901
Deposit accounts restricted as collateral for long-term debt with the FSM Development Bank.	<u>206,290</u>
	<u>\$ 2,230,191</u>

M. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, docks, water and sewer lines, water catchments, and other similar items), are reported in the governmental activity column of the government-wide financial statements. Such assets, whether purchased or constructed, are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

Machinery and equipment, other than vehicles and boats, are capitalized when the cost of individual items exceed \$50,000. Vehicles and boats, along with significant repair and maintenance qualifying as a betterment of such, are capitalized regardless of cost and depreciated. Buildings and infrastructure projects, along with significant improvements or reconstruction qualifying as a betterment of such, are capitalized when the cost of individual items or projects exceed \$100,000. The costs of normal maintenance and repairs that do not add to the value of the capital asset or materially extend capital asset lives are not capitalized.

Capital assets of the primary government and the component units are depreciated using the straight-line method over their estimated useful lives, with a full year's depreciation charged in the year of acquisition and disposal, regardless of date. Estimated useful lives are as follows:

Buildings	40 - 50 years
Infrastructure	25 - 50 years
Facilities	3 - 40 years
Machinery and equipment	3 - 25 years
Furniture and fixtures	3 - 10 years

N. Deferred Revenue

In the government-wide financial statements, deferred revenue is recognized when cash, receivables or other assets are recorded prior to being earned. In the governmental fund financial statements deferred revenue represents monies received or revenues accrued which have not been earned or do not meet the "available" criterion for revenue recognition under the modified accrual basis of accounting. The deferred revenue in the governmental fund types has primarily resulted as federal funds are received in advance of eligible expenditures.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

O. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Annual leave accumulates at the rate of one working day per bi-weekly pay period.

P. Fund Balance

Fund balance classifications are based on the extent to which the State is bound to honor constraints on the specific purposes for which amounts in those funds can be spent and are reported under the following fund balance classifications:

- Non-spendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed.
- Unassigned includes negative fund balances in other governmental funds.

The State has a general policy to first use restricted resources for expenditures incurred for which both restricted and unrestricted (committed, assigned, and unassigned) resources are available. When expenditures are incurred for which only unrestricted resources are available, the general policy of the State is to use committed resources first, followed by assigned, and then unassigned. The use of restricted/committed resources may be deferred based on a review of the specific transaction.

A formal minimum fund balance policy has not been adopted.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

Q. Risk Financing

The State is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the primary government not to purchase commercial insurance for the risks of loss to which it is exposed. Instead, State management believes it is more economical to manage its risks internally. In the event of claim settlements and judgments, the State reports all of its risk management activities in its General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. However, no material losses have been incurred as a result of this policy in the last three years.

R. New Accounting Standards

During fiscal year 2012, the State implemented the following pronouncements:

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the State.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

R. New Accounting Standards, Continued

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the State.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain FASB and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the State.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management has not yet determined the effect of implementation of this statement on the financial statements of the State.

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the State.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the State.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

R. New Accounting Standards, Continued

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of the State.

S. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures and expenses during the reporting period. Actual results could differ from those estimates.

T. Total Columns

Total columns are presented primarily to facilitate financial analysis. The Management's Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with the State's financial statements for the year ended September 30, 2011 from which summarized information was derived.

(2) Deposits and Investments

The deposit and investment policies of the State are governed by Title 13 of the Yap State Code. The Treasurer is responsible for ensuring that deposits of the General Fund are maintained in commercial checking or savings accounts of any financial institution whose assets are at least \$1 billion and whose deposits are subject to Federal Deposit Insurance Corporation (FDIC) insurance. The Governor is responsible for the investment of any monies of the State that are deemed not necessary for immediate use.

The Federated Development Authority has selected investment managers who are given authority to buy and sell securities. These investment managers may invest in stocks, bonds and cash equivalents, for which minimum standards of quality of such investments at the time of purchase shall be as follows:

**STATE OF YAP
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Notes to Financial Statements
September 30, 2012

(2) Deposits and Investments, Continued

- i. Cash equivalents - The investment manager may engage in all normally accepted short-term investment practices including, but not limited to U.S. Treasury and government agency securities, bankers acceptances, certificates of deposit, commercial paper and repurchase agreements using any of the foregoing as collateral. The following restrictions apply: (1) Commercial paper must be rated A-1/P-1 or higher by Standard & Poors Corporation and Moody's Investor Services; and (2) Certificates of deposit must be from FDIC insured banks or FSLIC insured savings and loan associations, both of which must have assets in excess of \$2 billion. Deposits in smaller institutions are acceptable, but must not exceed the amount of the insurance, unless collateralized by U.S. Treasury obligations at 102%.
- ii. Stocks - A "B" rating by a national rating service is required. Non-rated stocks, such as banks or insurance companies, must be equal in quality or higher.
- iii. Bonds – Investments in bonds are confined to issues rated "A" or higher by a national rating service, except in the case of U.S. Treasury or government agency obligations which are not rated.

The equity portfolio shall be diversified among issues and industry classifications. No more than 25% of the equity portfolio may be invested in any single classification, as described by the Standard and Poors 500 Index, unless prior approval is received from the Secretary of Finance.

No investment may be made in a single corporate entity which exceeds 5% of the total assets of the fund at the time of purchase without prior approval of the Secretary of Finance.

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the State's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The State does not have a deposit policy for custodial credit risk.

As of September 30, 2012, the carrying amount of the primary government's governmental activities total cash and cash equivalents was \$1,784,452 and the corresponding bank balance was \$2,225,797, which is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2012, bank deposits in the amount of \$577,216 were FDIC insured. The State does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2012

(2) Deposits and Investments, Continued

A. Deposits, Continued

As of September 30, 2012, the carrying amount of the primary government's business-type activities total cash and cash equivalents was \$11,814. There were no significant differences between cash balances per book and per bank. As of September 30, 2012, \$11,814 of cash is maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance and which is fully FDIC insured.

As of September 30, 2012, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$10,571,752 and the corresponding bank balances were \$10,498,052, of which \$8,674,684 were maintained in financial institutions subject to FDIC insurance. As of September 30, 2012, bank deposits in the amount of \$6,481,390 were FDIC insured. The component units do not require collateralization of their cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Therefore, these deposits are exposed to custodial credit risk.

B. Investments

The State has invested its excess Compact Funds in a pooled investment fund which is managed under the control of the Federated Development Authority, an entity comprised of the FSM National Government and its four component states. The State has also invested its excess Compact Funds in the Yap State Investment Trust Fund, which was established in the current year to more appropriately account for its investments. The Legislature believes that the State may become more financially independent by placing its invested funds in a Trust account. Investment income originating from the pool accrues to the General Fund.

As of September 30, 2012, the State's investments at fair value are as follows:

Fixed income securities:	
Domestic fixed income	\$ 6,086,863
Other investments:	
Domestic equities	58,605,406
Cash management account	<u>1,731,838</u>
	\$ <u>66,424,107</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2012

(2) Deposits and Investments, Continued

B. Investments, Continued

As of September 30, 2012, the State's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

Investment Type	Fair Value	Investment Maturities (In Years)				Credit Ratings
		Less than 1	1-5	6-10	Over 10	
U.S. Treasury Notes and Bonds	\$ 1,294,433	\$ 214,500	\$ 817,938	\$ 261,995	\$ -	AAA
U.S. Government Agencies Obligations:						
Federal Home Loan Mortgage Corporation						
Corporation	112,560	-	521	47,865	64,174	AAA
Government National Mortgage Association						
Association	627,575	348,891	-	-	278,684	AAA
Federal National Mortgage Association	741,432	564,172	85,489	-	91,771	AAA
Tennessee Valley Authority	13,777	-	-	7,247	6,530	AAA
Small Business Administration	25,813	-	-	-	25,813	No rating
National Credit Union Admin	317,802	-	-	317,802	-	AAA
Housing Urban Development	10,215	-	10,215	-	-	No rating
FISCO DEBENTURES	20,236	-	-	20,236	-	AAA /NO
AID-TUNISIA	14,977	-	7,057	7,920	-	RATING
Financing Corporation	31,902	-	-	31,902	-	No rating
Municipal Obligations	92,991	50,513	-	-	42,478	A1
Municipal Obligations	4,363	-	-	-	4,363	A2
Municipal Obligations	51,889	-	2,950	9,329	39,610	Aa1
Municipal Obligations	5,192	-	-	-	5,192	Aa2
Municipal Obligations	16,260	-	-	-	16,260	Aa3
Municipal Obligations	38,610	7,396	-	31,214	-	No rating
Municipal Obligations	3,550	3,550	-	-	-	WR
Corporate Bonds	191,076	54,600	64,225	-	72,251	A1
Corporate Bonds	217,506	19,148	161,024	37,334	-	A2
Corporate Bonds	330,434	67,603	139,231	123,600	-	A3
Corporate Bonds	31,001	8,927	20,049	2,025	-	Aa1
Corporate Bonds	118,944	-	31,355	79,996	7,593	Aa2
Corporate Bonds	71,385	14,341	21,353	35,691	-	Aa3
Corporate Bonds	41,282	12,572	10,930	6,764	11,016	Aaa
Corporate Bonds	67,703	-	35,916	31,787	-	Ba1
Corporate Bonds	8,045	-	-	-	8,045	Ba2/Ba3
Corporate Bonds	463,029	161,427	209,838	79,077	12,687	Baa1
Corporate Bonds	755,707	215,558	236,158	248,224	55,767	Baa2
Corporate Bonds	105,372	21,512	53,660	30,200	-	Baa3
Corporate Bonds	<u>261,802</u>	<u>47,222</u>	<u>101,281</u>	<u>83,203</u>	<u>30,096</u>	No rating
	<u>\$ 6,086,863</u>	<u>\$ 1,811,932</u>	<u>\$ 2,009,190</u>	<u>\$ 1,493,411</u>	<u>\$ 772,330</u>	

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2012

(2) Deposits and Investments, Continued

B. Investments, Continued

As of September 30, 2012, the General Fund holds 10.7% of the shares of the Bank of the Federated States of Micronesia in the amount of \$1,000,000, 24.5% of the shares of the Pacific Islands Development Bank in the amount of \$1,000,000, and an equity investment in Palau Micronesia Air (PMA) in the amount of \$500,000. As the fair market value of these investments, except for PMA, is not readily available, such have been recorded at cost. The shares in Palau Micronesia Air have been fully reserved for through an impairment loss.

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. With the exception of investments in U.S. government securities, which are explicitly or implicitly guaranteed by the United States government, all other investments must be rated in accordance with the State's investment policy.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the State will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The State's investments are held and administered by trustees. Based on negotiated trust and custody contracts, all of these investments were held in the State's name by the State's custodial financial institutions at September 30, 2012.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the State. As of September 30, 2012, the State did not have any investments in a single issuer that represented 5% or more of the investments of the State.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. The State does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Discretely Presented Component Units

The Diving Seagull, Inc.:

As of September 30, 2012, the State's investments at fair value are as follows:

Fixed income securities:	
Domestic fixed income	\$ <u>192,528</u>
Other investments:	
Equities	288,133
Money market funds	<u>17,740</u>
	<u>305,873</u>
	\$ <u>498,401</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2012

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

The Diving Seagull, Inc., Continued

As of September 30, 2012, the Diving Seagull's fixed income securities, including their Moody's Investor Service and/ or S & P credit ratings, had the following maturities:

<u>Investment Type</u>	<u>Rating Type</u>	<u>Maturity (in years)</u>				<u>Total</u>
		<u>Current</u>	<u>1-5</u>	<u>6-10</u>	<u>Over</u>	
U.S. Treasury Notes	AAA	\$ 29,438	\$ 35,684	\$ 13,781	\$ -	\$ 78,903
U.S. Government agencies	AAA	20,645	14,106	-	-	34,751
Corporate Notes	A1	-	15,977	12,459	-	28,436
Corporate Notes	A2	-	-	16,744	-	16,744
Corporate Notes	A3	-	<u>23,181</u>	<u>10,513</u>	-	<u>33,694</u>
		\$ <u>50,083</u>	\$ <u>88,948</u>	\$ <u>53,497</u>	\$ <u>-</u>	\$ <u>192,528</u>

(3) Receivables

Receivables as of September 30, 2012, for the primary government's individual major funds and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Foreign Assistance Grants</u>	<u>Compact Trust</u>	<u>Nonmajor And Other Funds</u>	<u>Totals</u>
Receivables:					
Loans	\$ 9,921,547	\$ -	\$ -	\$2,000,000	\$11,921,547
Federal agencies	-	2,874,197	-	-	2,874,197
FSM National Government	376,302	-	-	795,591	1,171,893
Taxes	361,363	-	-	-	361,363
Other	<u>154,653</u>	<u>-</u>	<u>-</u>	<u>38,590</u>	<u>211,843</u>
	10,813,865	2,874,197	-	2,834,181	16,540,843
Less: allowance for uncollectible accounts	<u>(10,122,802)</u>	<u>(2,597,049)</u>	<u>-</u>	<u>(2,802,597)</u>	<u>(15,541,048)</u>
Net receivables	\$ <u>691,063</u>	\$ <u>277,148</u>	\$ <u>-</u>	\$ <u>31,584</u>	\$ <u>999,795</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2012

(3) Receivables, Continued

Loans receivable of the primary government as of September 30, 2012 are as follows:

Major Governmental Funds

General Fund:

Note receivable from the Yap Fishing Corporation, appropriated under YSL No. 2-96, uncollateralized, non-interest bearing, due and payable on or before June 11, 2004. This note has been fully provided for in the allowance for uncollectible accounts. \$ 6,400,000

Note receivable from the Yap Fishing Corporation, appropriated under YSL No. 3-8, uncollateralized, due September 30, 2004, interest at 6% per annum. This note has been fully provided for in the allowance for uncollectible accounts. 1,000,000

Note receivable from the Yap Investment Trust, appropriated under YSL No. 4-85, uncollateralized, due September 30, 2000, interest at 1% per annum. This note has been fully provided for in the allowance for uncollectible accounts. 824,102

Note receivable from the Yap State Public Service Corporation, uncollateralized, due in quarterly interest only payments through March 2003; monthly principal and interest payments of \$5,651 starting June 1, 2003; interest at 2% per annum, maturing in May 2017. This note has been fully provided for in the allowance for uncollectible accounts. 341,444

Note receivable from Yap State Public Service Corporation, uncollateralized, original principal of \$1,600,000 due in principal and interest payments of \$10,202 starting November 1, 2009; interest at 1% per annum, maturing in October 2023. The proceeds of the note were used for the repayment to prior non-government utility customers pursuant to YSL 7-38 and 7-79. This note has been fully provided for in the allowance for uncollectible accounts. 1,356,001

9,921,547

Nonmajor Governmental Funds

Note receivable from the Yap Fishing Corporation, appropriated under YSL No. 3-67, uncollateralized, non-interest bearing and payable on demand. This note has been fully provided for in the allowance for uncollectible accounts. 2,000,000

\$ 11,921,547

**STATE OF YAP
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Notes to Financial Statements
September 30, 2012

(3) Receivables, Continued

Receivables for the State's discretely presented component units, including applicable allowances for uncollectible accounts, are as follows:

	Yap Visitors <u>Bureau</u>	Yap State Public Service <u>Corporation</u>	The Diving <u>Seagull, Inc.</u>	<u>Totals</u>
Receivables:				
General	\$ 120,601	\$ 1,424,056	\$ 2,046,575	\$ 3,591,232
Other	<u> -</u>	<u> 299,321</u>	<u> 73,990</u>	<u> 373,311</u>
	120,601	1,723,377	2,120,565	3,964,543
Less: allowance for uncollectible accounts	<u> -</u>	<u> (227,403)</u>	<u> (581,140)</u>	<u> (808,543)</u>
Net receivables	\$ <u>120,601</u>	\$ <u>1,495,974</u>	\$ <u>1,539,425</u>	\$ <u>3,156,000</u>

(4) Interfund Receivables and Payables

Receivables and payables between funds reflected as due to/from other funds in the combined balance sheet at September 30, 2012, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Foreign Assistance Grants	\$ 6,198,481
General	Nonmajor governmental funds	305,587
Foreign Assistance Grants	General	3,118,158
Nonmajor governmental funds	General	<u>514,300</u>
		\$ <u>10,136,526</u>

**STATE OF YAP
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Notes to Financial Statements
September 30, 2012

(5) Capital Assets

Capital asset activities of the primary government for the year ended September 30, 2012, are as follows:

	Balance October 1 <u>2011</u>	<u>Additions</u>	<u>Retirements</u>	Balance September 30, 2012
Governmental activities:				
Capital assets, being depreciated:				
Buildings	\$ 12,275,902	\$ -	\$ -	\$ 12,275,902
Infrastructure	82,316,716	-	-	82,316,716
Equipment	492,330	272,700	-	765,030
Vehicles	2,022,584	7,600	-	2,030,184
Vessels	5,153,562	2,901	-	5,156,463
Heavy equipment	<u>3,621,122</u>	<u>-</u>	<u>-</u>	<u>3,621,122</u>
	<u>105,882,216</u>	<u>283,200</u>	<u>-</u>	<u>106,165,417</u>
Less accumulated depreciation for:				
Buildings	(7,897,316)	(430,321)	-	(8,327,637)
Infrastructure	(67,053,247)	(1,570,133)	-	(68,623,380)
Equipment	(211,263)	(80,604)	-	(291,867)
Vehicles	(1,491,721)	(199,206)	-	(1,690,927)
Vessels	(2,098,946)	(208,974)	-	(2,307,920)
Heavy equipment	<u>(2,996,129)</u>	<u>(136,586)</u>	<u>-</u>	<u>(3,132,715)</u>
	<u>(81,748,621)</u>	<u>(2,625,824)</u>	<u>-</u>	<u>(84,374,445)</u>
Total capital assets, being depreciated, net	<u>24,133,595</u>	<u>(2,342,624)</u>	<u>-</u>	<u>21,790,971</u>
Non-depreciable Assets				
Land	<u>3,170,610</u>	<u>-</u>	<u>-</u>	<u>3,170,610</u>
Governmental activities capital assets, net	\$ <u>27,304,205</u>	\$ <u>(2,342,624)</u>	\$ <u>-</u>	\$ <u>24,961,581</u>

Depreciation expense was charged to functions/programs of the primary government's governmental activities as follows:

Judiciary	\$ 12,924
Councils of Traditional leaders	4,685
Public auditor	6,958
General government	65,977
Economic development	49,079
Public safety	78,346
Community affairs	26,328
Education	346,407
Public works and transportation	1,402,430
Health services	236,831
Boards and commissions	99,017
Other appropriations	<u>296,842</u>
	<u>\$ 2,625,824</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2012

(5) Capital Assets, Continued

	<u>Balance October 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance September 30, 2012</u>
Business-type activities:				
Depreciable capital assets:				
Buildings	\$ 111,292	\$ 600	\$ -	\$ 111,892
Vehicles	1,382,402	139,465	-	1,521,867
Shop equipment	58,402	-	-	58,402
Office equipment	<u>90,296</u>	<u>1,196</u>	<u>(109)</u>	<u>91,383</u>
	1,642,392	141,261	(109)	1,783,544
Less accumulated depreciation	<u>(1,011,542)</u>	<u>(130,670)</u>	<u>-</u>	<u>(1,142,212)</u>
Total net capital assets	<u>\$ 630,850</u>	<u>\$ 10,591</u>	<u>\$ (109)</u>	<u>\$ 641,332</u>

Discretely Presented Component Units:

	<u>Balance October 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance September 30, 2012</u>
Depreciable assets:				
Utility plant	\$ 20,087,596	\$ 762,497	\$ -	\$ 20,850,093
Machinery, equipment and others	<u>16,741,347</u>	<u>354,567</u>	<u>-</u>	<u>17,095,914</u>
	36,828,943	1,117,064	-	37,946,007
Less accumulated depreciation	<u>(23,791,944)</u>	<u>(1,489,362)</u>	<u>-</u>	<u>(25,281,306)</u>
	13,036,999	(372,298)	-	12,664,701
Nondepreciable assets:				
Construction work-in-progress	<u>485,383</u>	<u>117,735</u>	<u>(486,599)</u>	<u>116,519</u>
	<u>\$ 13,522,382</u>	<u>\$ (254,563)</u>	<u>\$ (486,599)</u>	<u>\$ 12,781,220</u>

(6) Operating Transfers In/Out

Operating transfers in/out for each major governmental fund and nonmajor governmental funds in the aggregate, for the year ended September 30, 2012, are as follows:

<u>Source</u>	<u>Recipient</u>	<u>Transfers Out</u>	<u>Transfers In</u>
<u>Major Governmental Funds</u>			
General	Foreign Assistance Grants	\$ <u>323,484</u>	\$ <u>323,484</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2012

(6) Operating Transfers In/Out, Continued

Transfers are used to: 1) move revenues from the fund that enabling legislation or budget requires to collect them to the fund that enabling legislation or budget requires to expend them, 2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations and U.S. federal matching requirements, and 3) record reductions in interfund loans for amounts that are not expected to be repaid.

(7) Long-Term Obligations

Primary Government

Asian Development Bank (ADB) Loans:

The State implemented an Early Retirement Scheme (ERS) in which employees holding certain nonessential positions as identified by the State were retired early with a payout of the equivalent of two-years' wages. This ERS program is funded by a \$3,500,000 loan from the ADB (Loan Number 1520(SF)) through the FSM National Government. The activities of the ERS Program are recorded in the General Fund.

The ADB loan has a grace period of ten years with the first payment due in February 2008 and the last payment in August 2038. However, pursuant to the terms of the Financing Agreement between the State and the FSM National Government, the State is required to deposit into the ERS Trust account held in the name of the State within the FSM National Government investment portfolio, 100% of the outstanding principal balance by September 30, 2002.

Funds for the repayment of the ADB loan are expected to be derived from the annual appropriations for salaries and wages earmarked for the positions abolished under the Early Retirement Scheme. The Financing Agreement requires the State to continue to appropriate salaries for the abolished positions and deposit the appropriate funds into the ERS Trust Account. These funds had not been deposited to the Trust Account as of September 30, 2012. As of September 30, 2012, the amount outstanding against this loan was \$3,640,920. Of the required \$3,500,000 identified for future debt service payments, \$1,731,838 is deposited in an investment account jointly held with the FSM National Government. That investment account is restricted for the repayment of this debt and other ADB related debt set forth below.

The State entered into an agreement with the FSM to borrow a portion of the proceeds of the Basic Social Services Program Loan with ADB (Loan Number 1816 FSM (SF)), for the purpose of promoting basic social services in Yap, non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. The loan is payable semiannually commencing February 1, 2009, at which time the service charge increases to 1.5% per annum, with a maturity date of August 1, 2032. As of September 30, 2012, the outstanding balance is \$351,939.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2012

(7) Long-Term Obligations, Continued

Primary Government, Continued

Asian Development Bank (ADB) Loans, Continued:

The State entered into an agreement with the Federated States of Micronesia National Government (FSM) to borrow a portion of the proceeds of the FSM Program Loan with ADB (Loan Number 1873 (SF) and Loan Number 1874 FSM (SF)), for the purpose of promoting private sector development in Yap, with interest at 1% - 1.5% per annum. The principal payments shall be made in 32 equal semi-annual payments with the first payment due on May 15, 2011 and the last payment on November 15, 2026. As of September 30, 2012, the balances payable on these loans amounted to \$369,690 and \$869,881, respectively.

Annual debt service requirements to maturity for principal and interest are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 166,307	\$ 60,267	\$ 226,575
2014	166,307	58,177	224,485
2015	166,307	56,087	222,395
2016	166,307	53,997	220,305
2017	166,307	51,907	218,215
2018-2022	1,236,108	218,476	1,454,585
2023-2027	1,195,032	147,820	1,342,852
2028-2032	1,099,185	82,324	1,181,509
2033-2037	<u>870,568</u>	<u>25,477</u>	<u>896,045</u>
	<u>\$ 5,232,430</u>	<u>\$ 754,534</u>	<u>\$ 5,986,964</u>

Discretely Presented Component Units

Yap State Public Service Corporation (YSPSC):

Loan of original principal of \$2,270,837 payable to the Asia Development Bank (ADB) borrowed through the Federated States of Micronesia (FSM) for construction of certain water projects. YSPSC was to repay Yap State for interest at 6.82% per annum on the outstanding balance; however, Yap State has waived the interest payment requirement. The loan repayment in Special Drawing Rights commenced August 2007 with the final payment due in February 2032. The loan is collateralized by the guarantee of the FSM National Government. \$ 2,660,995

Uncollateralized note of original principal of \$824,420 payable to Yap State in quarterly interest only payments through March 2003; monthly principal and interest payment of \$5,651 started June 1, 2003; interest at 2% per annum, maturing in May 2017. The proceeds of the note were used for the construction of the warehouse facility and main office. 332,375

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2012

(7) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

Yap State Public Service Corporation (YSPSC), Continued:

Uncollateralized note of original principal of \$1,600,000 payable to Yap State in monthly principal and interest payments of \$10,202 started November 1, 2009; interest at 1% per annum, maturing in October 2023. The proceeds of the note were used for the repayment to prior non-government utility customers pursuant to YSL Bill # 7-38 & 7-79. 1,339,225

Note of original principal of \$103,000 payable to United States of America, acting through the Rural Housing Service, for the construction of the warehouse facility and main office. The note is payable in monthly installments of \$1,075 including interest at 4.625% per annum, which started March 26, 2003 and maturing in September 2013. The note is collateralized by equipment, furniture, and fixtures located at YSPSC's office. 5,107

\$ 4,337,702

Annual debt service requirements to maturity for principal and interest are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 320,526	\$ 14,945	\$ 335,471
2014	222,452	13,199	235,651
2015	224,215	11,436	235,651
2016	225,996	9,655	235,651
2017	266,224	7,892	274,116
2018 through 2022	1,449,074	22,176	1,471,250
2023 through 2027	605,632	-	605,632
2028 through 2032	<u>1,023,583</u>	-	<u>1,023,583</u>
	<u>\$ 4,337,702</u>	<u>\$ 79,303</u>	<u>\$ 4,417,005</u>

The Diving Seagull, Inc. (DSI):

Bank loan in the amount of \$3,000,000 granted by the FSM Development Bank, with interest at 9% per annum, to purchase a fishing vessel. Interest and principal are payable in monthly installments of \$38,003, commencing April 25, 2010. This loan is collateralized by a security agreement over all assets of Diving Seagull, Inc. and secured by certain deposit accounts. \$ 2,509,851

Bank loan in the amount of \$2,000,000 granted by a local bank, with interest at 2.12% per annum, to assist in the purchase of a new vessel. Interest and principal are payable in monthly installments of \$35,778, commencing October 29, 2010. The loan is collateralized by a time certificate of deposit. 834,013

\$ 3,343,864

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2012

(7) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

The Diving Seagull, Inc. (DSI), Continued:

Annual debt service requirements to maturity for principal and interest are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 655,562	\$ 229,810	\$ 885,372
2014	680,722	198,408	879,130
2015	287,001	169,035	456,036
2016	313,924	142,112	456,036
2017	343,372	112,664	456,036
2018-2020	<u>1,063,283</u>	<u>134,629</u>	<u>1,197,912</u>
	<u>\$ 3,343,864</u>	<u>\$ 986,658</u>	<u>\$ 4,330,522</u>

(8) Change in Long-Term Obligations

Primary Government

Long-term liabilities will be liquidated in the future from governmental funds. During the year ended September 30, 2012, the following changes occurred in liabilities reported as part of the primary government's long-term liabilities in the statement of net assets:

	<u>Balance October 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2012</u>	<u>Due Within One Year</u>
Loans payable:					
ADB loans:					
Loan 1520	\$ 3,715,113	\$ -	\$ (74,193)	\$ 3,640,920	\$ 80,914
Loan 1816	388,913	-	(36,974)	351,939	17,549
Loan 1873	414,210	-	(44,520)	369,690	27,384
Loan 1874	<u>916,935</u>	<u>-</u>	<u>(47,054)</u>	<u>869,881</u>	<u>40,460</u>
	<u>5,435,171</u>	<u>-</u>	<u>(202,741)</u>	<u>5,232,430</u>	<u>166,307</u>
Other:					
Compensated absences	583,609	477,937	(432,357)	629,189	400,000
Land acquisition claims	<u>249,608</u>	<u>-</u>	<u>-</u>	<u>249,608</u>	<u>-</u>
	<u>833,217</u>	<u>477,937</u>	<u>(432,357)</u>	<u>878,797</u>	<u>400,000</u>
	<u>\$ 6,268,388</u>	<u>\$ 477,937</u>	<u>\$ (635,098)</u>	<u>\$ 6,111,227</u>	<u>\$ 566,307</u>

As of September 30, 2012, \$249,608 in land acquisition claims payable due under land purchase agreements was identified by the State. This total comprises indefinite land use payments and other lease payments for which payment dates cannot be determined due to heirship disputes.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2012

(8) Change in Long-Term Obligations, Continued

Discretely Presented Component Units

During the year ended September 30, 2012, the following changes occurred in liabilities reported as part of the component unit's long-term liabilities in the statement of net assets:

	Balance October 1, <u>2011</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2012</u>	Due Within <u>One Year</u>
Loan payable:					
YSPSC	\$ 4,536,802	\$ -	\$ (199,100)	\$ 4,337,702	\$ 320,526
DSI	<u>3,990,680</u>	<u>-</u>	<u>(646,816)</u>	<u>3,343,864</u>	<u>655,562</u>
	<u>\$ 8,527,482</u>	<u>\$ -</u>	<u>\$ (845,916)</u>	<u>\$ 7,681,566</u>	<u>\$ 976,088</u>

(9) Fund Balances

Classifications of fund balances comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following table enumerates the fund balance classifications:

	General <u>Fund</u>	Grants Assistance <u>Fund</u>	Yap State Investment <u>Trust</u>	Compact Trust <u>Fund</u>	Nonmajor <u>Funds</u>	Total Governmental <u>Funds</u>
Non-spendable:						
Permanent fund principal	\$ -	\$ -	\$ 35,723,211	\$ 7,825,732	\$ -	\$ 43,548,943
Pacific Islands Development Bank	1,000,000	-	-	-	-	1,000,000
Bank of the FSM	1,000,000	-	-	-	-	1,000,000
Restricted for:						
Debt service	1,731,838	-	-	-	-	1,731,838
General government	-	1,383,218	-	-	-	1,383,218
Education	-	2,032,451	-	-	-	2,032,451
Health services	-	375,623	-	-	-	375,623
Infrastructure	-	975,732	-	-	-	975,732
Public works and transportation	-	-	-	-	98,878	98,878
Committed for:						
General government	3,301	-	-	-	369,855	373,156
Debt service	200,000	-	-	-	-	200,000
Infrastructure	539,322	150,000	-	-	-	689,322
Education	11,451	-	-	-	-	11,451
Assigned	3,751,558	-	-	-	1,180	3,752,738
Unassigned	<u>11,543,751</u>	<u>(1,910,417)</u>	<u>-</u>	<u>-</u>	<u>(550,294)</u>	<u>9,083,040</u>
	<u>\$19,781,221</u>	<u>\$ 3,006,607</u>	<u>\$ 35,723,211</u>	<u>\$ 7,825,732</u>	<u>\$ (80,381)</u>	<u>\$66,256,390</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2012

(10) Commitments and Contingencies

Encumbrances

The State utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2012, the State has significant encumbrances summarized as follows:

	<u>General</u>	<u>Grants Assistance</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Encumbrances	\$ <u>3,751,558</u>	\$ <u>927,745</u>	\$ <u>247,792</u>	\$ <u>4,927,095</u>

Sick Leave

It is the policy of the State to record expenditures for sick leave when leave is actually taken. Sick leave is compensated time for absence during working hours arising from employee illness or injury.

Insurance Coverage

The State does not maintain insurance coverage for a significant amount of fixed assets. In the event of a catastrophe, the State is self-insured to a material extent. The State has not recognized material losses in its financial statements as a result of being self-insured.

Federal Grants

The State participates in a number of federally assisted grant programs. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs of \$822,143 relating to fiscal years 2008 through 2012 have been set forth in the State's Single Audit Report for the year ended September 30, 2012. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

Litigation

The State was not a party to any pending or threatened litigation at September 30, 2012. If claims are filed, they are filed with the State's Attorney General. Approved claims are usually paid under general appropriations to the affected government agency. The State's Attorney General is of the opinion that the State Liability Act has established claims limits of \$40,000 for wrongful injuries and \$20,000 for deaths.

Indefinite Land Use Sites

Payment obligations on rental lands termed "Indefinite Land Use Sites" were originally undertaken by the Trust Territory of the Pacific Islands (TTPI), for which obligation on these lands ceased in May, 1984. Subsequent to May 1984, responsibility to rent or purchase the sites was transferred to the State. The State's Division of Land and Surveys has estimated that the State may be responsible for funding the indefinite land use sites for back rent with interest. The State is actively attempting to negotiate purchase prices for these properties.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2012

(10) Commitments and Contingencies, Continued

Continuing Appropriations

As of September 30, 2012, the State has significant continuing appropriations summarized as follows:

General Fund:

YWA Daycare Bldg Matching (YSL No. 6-48)	\$ 2,479
Disaster/Search and Rescue (YSL No. 5-84)	822
Yap State Scholarship (YSL No. 6-48)	11,451
Yap State Development Investment Loan (YSL No. 5-1)	200,000
Mobil Fuel Farm Retaining Wall (YSL No. 6-81)	397,465
Infrastructure Maintenance Fund (YSL No. 7-59)	<u>141,857</u>
	<u>754,074</u>

Foreign Assistance Grants

Yap Community Development Program Matching (YSL No. 5-34)	<u>150,000</u>
Total Continuing Appropriations	\$ <u>904,074</u>

(11) Restatement

Subsequent to the issuance of the 2011 financial statements, management of the State determined that capital assets of the governmental activities were overstated by \$1,973,033; that deferred revenue of the discretely presented component units was understated by \$1,168,832; that investments and taxes receivable in the General Fund were understated by \$685,573 and \$748,866, respectively; that grants receivable in the Grants Assistance Fund was overstated by \$578,873; and that deferred revenue in the Grants Assistance Fund was understated by \$1,916,691. Accordingly, account balances have been restated from the amounts previously reported.

(12) Budgetary Compliance

For the year ended September 30, 2012, expenditures exceeded appropriations within the General Fund for the following:

General government	\$ 53,640
Economic development	\$ 16,430
Health services	\$ 288,016
Boards and commissions	\$ 11,443
Payments to component units	\$ 8,008

These over-expenditures of the General Fund have not been funded by legislative authorization.

(13) Special Item

During the year ended September 30, 2012, management of the State determined that certain receivable balances in the General Fund of \$2,826,281 were considered uncollectible. Accordingly, these amounts were provided for within the allowance for uncollectible accounts and recognized as a special item.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2012

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund
Year Ended September 30, 2012

	<u>Budgeted Amounts</u>		Actual - Budgetary	Variance with <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>	Basis (see Note 1)	
Revenues:				
Net decrease in the fair value of investments	\$ -	\$ -	\$ 2,719,436	\$ 2,719,436
Other	-	-	4,605,614	4,605,614
Total revenues	<u>-</u>	<u>-</u>	<u>7,325,050</u>	<u>7,325,050</u>
Expenditures:				
Current:				
Judiciary	203,939	209,939	198,801	11,138
Council of traditional leaders	192,770	192,770	188,399	4,371
General government	1,210,063	1,210,063	1,263,703	(53,640)
Public Auditor	193,930	193,930	-	193,930
Economic development	117,222	117,222	133,652	(16,430)
Public safety	593,396	593,396	565,846	27,550
Community affairs	270,111	270,111	246,514	23,597
Public works and transportation	1,680,778	1,680,778	1,651,612	29,166
Health services	-	-	288,016	(288,016)
Boards and commissions	142,487	142,487	153,930	(11,443)
Payments to component units	95,189	95,189	103,197	(8,008)
Other appropriations	243,007	243,007	223,045	19,962
Others	5,772,363	5,772,363	5,772,363	-
Total expenditures	<u>10,715,255</u>	<u>10,721,255</u>	<u>10,789,077</u>	<u>(67,822)</u>
Deficiency of revenues under expenditures	<u>(10,715,255)</u>	<u>(10,721,255)</u>	<u>(3,464,027)</u>	<u>7,257,228</u>
Other financing uses:				
Operating transfers out	-	-	(323,484)	(323,484)
Total other financing uses	<u>-</u>	<u>-</u>	<u>(323,484)</u>	<u>(323,484)</u>
Net change in unreserved fund balance	<u>(10,715,255)</u>	<u>(10,721,255)</u>	<u>(3,787,511)</u>	<u>6,933,744</u>
Fund balance at the beginning of the year	-	-	22,134,293	22,134,293
Prior period adjustment	-	-	1,434,439	1,434,439
Fund balance at the end of the year	<u>\$ (10,715,255)</u>	<u>\$ (10,721,255)</u>	<u>\$ 19,781,221</u>	<u>\$ 30,502,476</u>

See accompanying notes to required supplementary information - budgetary reporting.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Required Supplementary Information - Budgetary Reporting
September 30, 2012

(1) Budgetary Information

An annual appropriated budget is adopted by the State's Legislature for the General Fund and Compact Programs through an Appropriations Act. However, additional appropriations and budget modifications occur throughout the year. The majority of unencumbered appropriations lapse as of year end unless specifically extended by the State's Legislature. Budgets for special revenue funds, except the Compact Program Fund, are not included in the annual Appropriations Act. Accordingly, a budget to actual presentation for special revenue funds, except the Compact Program Fund, is not required or presented. Project-length financial plans are generally adopted for all capital project funds.

Encumbrance accounting is utilized for budgetary control purposes. Encumbrances outstanding at year-end are reported as reservations of fund balance and will be funded as expenditures in the ensuing year. Encumbrances remain as reservations of fund balance until becoming expended or canceled. If an encumbrance is subsequently canceled, the funds revert to the applicable unreserved fund balance unless otherwise required by law.

Budgetary expenditures, which are on a basis other than GAAP, represent current charges against appropriations; current charges consist of all current year liquidated and unliquidated encumbrances. Budgetary expenditures are therefore determined by subtracting both current year liquidations of prior year encumbrances and unliquidated prior year encumbrances from the combined total of current year. When reviewed in relation to respective budgets, budgetary expenditures provide the principal means of evaluating current year operating performance and management stewardship. Amounts included on the Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund (which are presented on a non-GAAP budgetary basis) are reconciled to unreserved fund balance of the Combined Balance Sheet within the other charges in unreserved fund balance section of that statement.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2012

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

**Combining Schedule of Expenditures by Account
Governmental Funds
Year Ended September 30, 2012**

	<u>Special Revenue</u>		<u>Permanent</u>		Other Governmental Funds	Total
	General	Foreign Assistance Grants	Yap Investment Trust	Compact Trust		
Expenditures:						
Salaries and wages	\$ 2,447,809	\$ 6,342,177	\$ -	\$ -	\$ 20,854	\$ 8,810,840
Grants and subsidies	102,106	4,599	-	-	499,405	606,110
Utilities	542,240	1,098,666	-	-	-	1,640,906
Contractual services	183,806	632,975	-	-	288,287	1,105,068
Supplies and materials	114,298	707,789	-	-	-	822,087
Construction	2,180,651	326,501	-	-	-	2,507,152
Scholarship and training	-	509,835	-	-	-	509,835
Travel	172,441	784,274	-	-	312	957,027
Capital outlay	183,792	803,504	-	-	25,355	1,012,651
Rentals	1,180	6,036	-	-	-	7,216
Food stuffs	52,672	212,389	-	-	-	265,061
Communications	86,572	139,609	-	-	-	226,181
Printing and reproduction	6,879	44,535	-	-	-	51,414
Medical supplies	-	1,124,701	-	-	-	1,124,701
Repairs and maintenance	99,589	183,620	-	-	21,043	304,252
Freight	2,531	44,784	-	-	10,000	57,315
Professional services	80,372	149,564	-	-	-	229,936
POL	485,690	382,135	-	-	48,305	916,130
Allowances	84,382	14,537	-	-	-	98,919
Leased housing	-	16,327	-	-	-	16,327
Payment to component units	68,823	-	-	-	-	68,823
Principal repayment	202,741	-	-	-	57,022	259,763
Interest payments	154,437	-	-	-	25,547	179,984
Other	709,785	415,518	-	-	46,063	1,171,366
	<u>\$ 7,962,796</u>	<u>\$ 13,944,075</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,042,193</u>	<u>\$ 22,949,064</u>

See Accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

GENERAL FUND

September 30, 2012

The general fund is used to account for resources traditionally associated with government which are not required legally or by sound financial management to be accounted for in another fund. The United States Compact of Free Association current account and inflation adjustment funds associated with the current account are accounted for in this fund in addition to local taxes and other revenues.

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Revenues, Expenditures by Function,
and Changes in Fund Balance - General Fund
Year Ended September 30, 2012
(with comparative totals for the year ended September 30, 2011)

	2012	2011
Revenues:		
Revenue sharing:		
Import tax	\$ 570,383	\$ 730,310
Fuel tax	235,234	76,319
Income tax	563,821	537,265
Business gross receipts tax	767,416	732,531
Tobacco	-	222,434
	2,136,854	2,298,859
Excise taxes:		
Alcoholic beverages	410,826	400,148
Gasoline and diesel	93,824	95,268
Tobacco	138,508	154,252
Other excise taxes	478,461	441,671
	1,121,619	1,091,339
Fees and charges:		
Licenses and permits	93,801	86,556
Fines/sale of confiscated property	6,435	410
Leases and other rentals	164,555	4,221
	264,791	91,187
Departmental charges:		
Sea transportation	189,994	114,339
Air transportation	61,347	18,776
Hospital services	-	299,859
Other	429,785	339,646
	681,126	772,620
Interest and dividends	323,158	(975,682)
Net change in the fair value of investments	2,396,278	-
Other revenues	401,224	128,868
Total revenues	7,325,050	3,407,191
Expenditures:		
Current:		
Judiciary	205,068	197,665
Councils of Traditional Leaders:		
Council of Pilung	101,633	92,139
Council of Tamol	96,271	93,638
	197,904	185,777
General government:		
Office of the Governor	157,850	174,760
State Legislature	413,940	294,246
Office of Administrative Services	694,284	496,098
Office of Planning, Budget and Statistics	157,473	211,904
	1,423,547	1,177,008

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Revenues, Expenditures by Function,
and Changes in Fund Balance - General Fund, Continued
Year Ended September 30, 2012
(with comparative totals for the year ended September 30, 2011)

	2012	2011
Expenditures, continued:		
Current, continued:		
Economic Development:		
Department of Resources and Development	138,920	113,302
Public Safety:		
Department of Public Safety/Attorney General	565,707	559,073
Community Affairs		
Department of Public Affairs	252,046	312,167
Public Works and Transportation:		
Department of Public Works and Transportation	1,582,040	1,429,681
Health Services:		
Department of Health Services	278,179	219,788
Boards and Commissions:		
EPA Administration Board	12,800	6,025
Rural Development	11,944	61,934
Historic Preservation Office	68,270	89,246
Election Commissioner	38,852	17,827
Yap Investment Trust	18,955	20,340
	150,821	195,372
Payments to component units:		
Yap Visitor's Bureau	1,077	-
Public Transportation System	300,872	67,590
	301,949	67,590
Other appropriations:		
Micronesian Legal Services Corporation	41,280	41,280
Japan Overseas Cooperation Volunteers	6,570	-
Peace Corps Program	4,950	24,350
Yap Community Action Program	135,186	134,955
Northern Road Improvement Projects	2,190,282	-
Small Business Development	23,933	-
Other	107,236	206,073
	2,509,437	406,658
Debt service:		
Principal repayments	202,741	-
Interest payments	154,437	-
	357,178	-
Total expenditures	7,962,796	4,864,081
Deficiency of revenues under expenditures	(637,746)	(1,456,890)
Special item:		
Write-off of receivables	(2,826,281)	-
Other financing uses:		
Operating transfers out	(323,484)	(239,210)
Net change in fund balance	(3,787,511)	(1,696,100)
Fund balance at the beginning of the year, as previously reported	22,134,293	24,118,202
Prior period adjustments	1,434,439	(287,809)
Fund balance at the beginning of the year, as restated	23,568,732	23,830,393
Fund balance at the end of the year	\$ 19,781,221	\$ 22,134,293

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund
Year Ended September 30, 2012

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Revenues:				
Net increase in the fair value of investments	\$ -	\$ -	\$ 2,719,436	\$ 2,719,436
Other revenues	-	-	4,605,614	4,605,614
Total revenues	-	-	7,325,050	7,325,050
Expenditures:				
Current:				
Judiciary	203,939	209,939	198,801	11,138
Councils of Traditional Leaders:				
Council of Pilung	95,675	95,675	93,971	1,704
Council of Tamol	97,095	97,095	94,428	2,667
	192,770	192,770	188,399	4,371
General government:				
Office of the Governor	172,406	172,406	158,640	13,766
State Legislature	416,074	416,074	405,688	10,386
Office of Administrative Services	508,265	508,265	538,882	(30,617)
Office of Planning, Budget and Statistics	113,318	113,318	160,492	(47,174)
	1,210,063	1,210,063	1,263,703	(53,640)
Public Auditor	193,930	193,930	-	193,930
Economic Development:				
Department of Resources and Development	117,222	117,222	133,652	(16,430)
Public Safety:				
Department of Public Safety/Attorney General	593,396	593,396	565,846	27,550
Community Affairs:				
Department of Public Affairs	270,111	270,111	246,514	23,597
Education:				
Department of Education	-	-	-	-
Public Works and Transportation:				
Department of Public Works and Transportation	1,680,778	1,680,778	1,651,612	29,166
Health services:				
Department of Health Services	-	-	288,016	(288,016)

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund, Continued
Year Ended September 30, 2012

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Expenditures, continued:				
Boards and Commissions:				
EPA Administration Board	-	-	16,967	(16,967)
Historic Preservation Office	84,164	84,164	60,728	23,436
Yap State Scholarship	-	-	18,955	(18,955)
Yap State Election commission	38,716	38,716	38,783	(67)
Yap Investment Trust	19,607	19,607	18,497	1,110
	<u>142,487</u>	<u>142,487</u>	<u>153,930</u>	<u>(11,443)</u>
Payments to component units:				
Yap Visitor's Bureau	-	-	(74)	74
Public Transportation System	95,189	95,189	103,271	(8,082)
	<u>95,189</u>	<u>95,189</u>	<u>103,197</u>	<u>(8,008)</u>
Other appropriations:				
Micronesia Legal Services Corporation	41,280	41,280	41,280	-
Small Business Dev. Center	-	-	24,185	(24,185)
Rural and Urban Serv. (RUS)	22,827	22,827	12,025	10,802
Japan Overseas Cooperation Volunteers	18,000	18,000	6,372	11,629
Peace Corps Program	20,900	20,900	4,950	15,950
Yap CAP	140,000	140,000	134,235	5,765
	<u>243,007</u>	<u>243,007</u>	<u>223,045</u>	<u>19,962</u>
Others:				
Bad debt	2,826,281	2,826,281	2,826,281	-
Others	2,946,082	2,946,082	2,946,082	-
	<u>5,772,363</u>	<u>5,772,363</u>	<u>5,772,363</u>	<u>-</u>
Total expenditures	<u>10,715,255</u>	<u>10,721,255</u>	<u>10,789,077</u>	<u>(67,822)</u>
Excess of revenues over expenditures	<u>(10,715,255)</u>	<u>(10,721,255)</u>	<u>(3,464,027)</u>	<u>7,257,228</u>
Other financing uses:				
Operating transfers out	-	-	(323,484)	(323,484)
Total other financing uses	<u>-</u>	<u>-</u>	<u>(323,484)</u>	<u>(323,484)</u>
Net change in fund balance	<u>(10,715,255)</u>	<u>(10,721,255)</u>	<u>(3,787,511)</u>	<u>6,933,744</u>
Fund balance at the beginning of the year	-	-	22,134,293	22,134,293
Prior period adjustment	-	-	1,434,439	1,434,439
Fund balance at the end of the year	<u>\$ (10,715,255)</u>	<u>\$ (10,721,255)</u>	<u>\$ 19,781,221</u>	<u>\$ 30,502,476</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Combined Balance Sheet
Nonmajor Governmental Funds
September 30, 2012

	<u>Other Special Revenue</u>	<u>Other Capital Projects</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 252,239	\$ -	\$ 252,239
Receivables, net:			
CFSM	-	28,968	28,968
Due from other funds	<u>118,796</u>	<u>186,791</u>	<u>305,587</u>
Total assets	<u>\$ 371,035</u>	<u>\$ 215,759</u>	<u>\$ 586,794</u>
<u>LIABILITIES AND FUND BALANCES (DEFICIT)</u>			
Liabilities:			
Accounts payable	\$ 31,540	\$ 23,941	\$ 55,481
Other liabilities and accruals	4,454	285	4,739
Deferred revenue	-	92,655	92,655
Due to other funds	<u>155,805</u>	<u>358,495</u>	<u>514,300</u>
Total liabilities	<u>191,799</u>	<u>475,376</u>	<u>667,175</u>
Fund balances (deficit):			
Restricted	-	98,878	98,878
Committed	369,855	-	369,855
Assigned	1,180	-	1,180
Unassigned	<u>(191,799)</u>	<u>(358,495)</u>	<u>(550,294)</u>
Total fund balances (deficit)	<u>179,236</u>	<u>(259,617)</u>	<u>(80,381)</u>
Total liabilities and fund balances	<u>\$ 371,035</u>	<u>\$ 215,759</u>	<u>\$ 586,794</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Combined Statement of Revenues, Expenditures by Function,
and Changes in Fund Balances (Deficit)
Nonmajor Governmental Funds
Year Ended September 30, 2012

	<u>Other Special Revenue</u>	<u>Other Capital Projects</u>	<u>Total</u>
Revenues:			
CFSM grants	\$ -	\$ 615,885	\$ 615,885
Excise taxes	117,427	-	117,427
Fees and charges	174,541	64,086	238,627
Other	33,674	-	33,674
Total revenues	<u>325,642</u>	<u>679,971</u>	<u>1,005,613</u>
Expenditures by function:			
Current:			
General government	139,144	615,885	755,029
Economic development	204,595	-	204,595
Debt service	-	82,569	82,569
Total expenditures	<u>343,739</u>	<u>698,454</u>	<u>1,042,193</u>
Net change in fund balances (deficit)	(18,097)	(18,483)	(36,580)
Fund balances (deficit) at the beginning of the year	<u>197,333</u>	<u>(241,134)</u>	<u>(43,801)</u>
Fund balances (deficit) at the end of the year	<u>\$ 179,236</u>	<u>\$ (259,617)</u>	<u>\$ (80,381)</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Combined Statement of Revenues, Expenditures by Account,
and Changes in Fund Balances (Deficit)
Nonmajor Governmental Funds
Year Ended September 30, 2012

	<u>Other Special Revenue</u>	<u>Other Capital Projects</u>	<u>Total</u>
Revenues:			
CFMSM grants	\$ -	\$ 615,885	\$ 615,885
Excise taxes	117,427	-	117,427
Fees and charges	174,541	64,086	238,627
Other	33,674	-	33,674
Total revenues	<u>325,642</u>	<u>679,971</u>	<u>1,005,613</u>
Expenditures by account:			
Salaries and wages	-	20,854	20,854
Grants and subsidies	322,022	177,383	499,405
Contractual services	-	288,287	288,287
Travel	-	312	312
Capital outlay	1,796	23,559	25,355
Repairs and maintenance	16,119	4,924	21,043
Freight	-	10,000	10,000
POL	-	48,305	48,305
Principal repayment	-	57,022	57,022
Interest payments	-	25,547	25,547
Other	3,802	42,261	46,063
Total expenditures	<u>343,739</u>	<u>698,454</u>	<u>1,042,193</u>
Net change in fund balances (deficit)	(18,097)	(18,483)	(36,580)
Fund balances (deficit) at the beginning of the year	<u>197,333</u>	<u>(241,134)</u>	<u>(43,801)</u>
Fund balances (deficit) at the end of the year	<u>\$ 179,236</u>	<u>\$ (259,617)</u>	<u>\$ (80,381)</u>

See Accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2012

Special revenue funds are used to account for specific revenues that are legally restricted for particular purposes. A brief discussion of the State's Nonmajor Governmental Funds - Special Revenue Funds as of September 30, 2012, follows:

Sports Development Fund

This fund accounts for certain funds dedicated to sports development in the State.

Housing Maintenance Fund

This fund accounts for funds dedicated to the housing expenses of specific employees of the State.

Enterprise Fund

This fund accounts for funds dedicated to recycling and other special purposes.

Yap Seed Trust Fund

This fund accounts for interest income from savings and certificates of deposit and other special purposes.

See Accompanying Independent Auditors' Report.

STATE OF YAP
 FEDERATED STATES OF MICRONESIA
 NONMAJOR GOVERNMENTAL FUNDS
 SPECIAL REVENUE FUNDS

Combining Balance Sheet
 September 30, 2012

	F39	F76	F85	F86	
	<u>Sports Development</u>	<u>Housing Maintenance</u>	<u>Enterprise</u>	<u>Yap Seed Trust</u>	<u>Total</u>
<u>ASSETS</u>					
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 252,239	\$ 252,239
Due from other funds	-	-	108,998	9,798	118,796
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 108,998</u>	<u>\$ 262,037</u>	<u>\$ 371,035</u>
<u>LIABILITIES AND FUND BALANCES (DEFICIT)</u>					
Liabilities:					
Accounts payable	\$ 31,540	\$ -	\$ -	\$ -	\$ 31,540
Other liabilities and accruals	-	4,454	-	-	4,454
Due to other funds	<u>136,832</u>	<u>18,973</u>	<u>-</u>	<u>-</u>	<u>155,805</u>
Total liabilities	<u>168,372</u>	<u>23,427</u>	<u>-</u>	<u>-</u>	<u>191,799</u>
Fund balances (deficit):					
Committed	-	-	108,998	260,857	369,855
Assigned	-	-	-	1,180	1,180
Unassigned	<u>(168,372)</u>	<u>(23,427)</u>	<u>-</u>	<u>-</u>	<u>(191,799)</u>
Total fund balances (deficit)	<u>(168,372)</u>	<u>(23,427)</u>	<u>108,998</u>	<u>262,037</u>	<u>179,236</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 108,998</u>	<u>\$ 262,037</u>	<u>\$ 371,035</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP
 FEDERATED STATES OF MICRONESIA
 NONMAJOR GOVERNMENTAL FUNDS
 SPECIAL REVENUE FUNDS

Combining Statement of Revenues, Expenditures By Function,
 and Changes in Fund Balances (Deficit)
 Year Ended September 30, 2012

	F39	F76	F85	F86	
	Sports Development	Housing Maintenance	Enterprise	Yap Seed Trust	Total
Revenues:					
Excise taxes	\$ 117,427	\$ -	\$ -	\$ -	\$ 117,427
Fees and charges	-	16,144	158,397	-	174,541
Other	-	-	-	33,674	33,674
	<u>117,427</u>	<u>16,144</u>	<u>158,397</u>	<u>33,674</u>	<u>325,642</u>
Total revenues					
Expenditures by function:					
Current:					
General government	117,427	21,717	-	-	139,144
Economic development	-	-	204,595	-	204,595
	<u>117,427</u>	<u>21,717</u>	<u>204,595</u>	<u>-</u>	<u>343,739</u>
Total expenditures					
Net change in fund balances (deficit)	-	(5,573)	(46,198)	33,674	(18,097)
Fund balances (deficit) at the beginning of the year	<u>(168,372)</u>	<u>(17,854)</u>	<u>155,196</u>	<u>228,363</u>	<u>197,333</u>
Fund balances (deficit) at the end of the year	<u>\$ (168,372)</u>	<u>\$ (23,427)</u>	<u>\$ 108,998</u>	<u>\$ 262,037</u>	<u>\$ 179,236</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP
 FEDERATED STATES OF MICRONESIA
 NONMAJOR GOVERNMENTAL FUNDS
 SPECIAL REVENUE FUNDS

Combining Statement of Revenues, Expenditures By Account,
 and Changes in Fund Balances (Deficit)
 Year Ended September 30, 2012

	F39	F76	F85	F86	
	Sports Development	Housing Maintenance	Enterprise	Yap Seed Trust	Total
Revenues:					
Excise taxes	\$ 117,427	\$ -	\$ -	\$ -	\$ 117,427
Fees and charges	-	16,144	158,397	-	174,541
Others	-	-	-	33,674	33,674
Total revenues	<u>117,427</u>	<u>16,144</u>	<u>158,397</u>	<u>33,674</u>	<u>325,642</u>
Expenditures by account:					
Grants and subsidies	117,427	-	204,595	-	322,022
Capital outlay	-	1,796	-	-	1,796
Repairs and maintenance	-	16,119	-	-	16,119
Other	-	3,802	-	-	3,802
Total expenditures	<u>117,427</u>	<u>21,717</u>	<u>204,595</u>	<u>-</u>	<u>343,739</u>
Net change in fund balances (deficit)	-	(5,573)	(46,198)	33,674	(18,097)
Fund balances (deficit) at the beginning of the year	<u>(168,372)</u>	<u>(17,854)</u>	<u>155,196</u>	<u>228,363</u>	<u>197,333</u>
Fund balances (deficit) at the end of the year	<u>\$ (168,372)</u>	<u>\$ (23,427)</u>	<u>\$ 108,998</u>	<u>\$ 262,037</u>	<u>\$ 179,236</u>

See Accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS FUNDS

September 30, 2012

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds. A brief discussion of the State's Nonmajor Governmental Funds - Capital Projects Funds as of September 30, 2012, follows:

Public Infrastructure Development Fund

This fund accounts for United States Congress appropriations under United States Public Law 99-239, as amended, Title II, Article I, Section 211(d) and approved by the FSM Congress.

CFSM Capital Projects Fund

This fund is used to account for grants awarded by the Congress of the Federated States of Micronesia (CFSM) for improvement and betterment projects within the State.

Yap State Public Projects Fund

This fund is used to account for an appropriation from the FSM National Government which initially has been loaned to the Yap Fishing Corporation (through YEDA) and after repayment will be used to fund certain capital projects. Appropriations by the State's Legislature for capital improvement projects funded by the General Fund are also accounted for within this fund.

Yap Water Development Projects Revolving Fund

This fund was established pursuant to YSL No. 4-69 to account for loan proceeds and other funds designated for State Water Development Projects.

See Accompanying Independent Auditors' Report.

STATE OF YAP
 FEDERATED STATES OF MICRONESIA
 NONMAJOR GOVERNMENTAL FUNDS
 CAPITAL PROJECTS FUNDS

Combining Balance Sheet
 September 30, 2012

	F51	F53	F60	F61	
	Compact Capital Projects	CFSM Capital Projects	Yap State Public Projects	Yap Water Development Projects Revolving	Total
<u>ASSETS</u>					
Receivables, net:					
CFSM	\$ -	\$ 28,968	\$ -	\$ -	\$ 28,968
Due from other funds	-	186,791	-	-	186,791
Total assets	<u>\$ -</u>	<u>\$ 215,759</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 215,759</u>
<u>LIABILITIES AND FUND BALANCES (DEFICIT)</u>					
Liabilities:					
Accounts payable	\$ -	\$ 23,941	\$ -	\$ -	\$ 23,941
Other liabilities and accruals	-	285	-	-	285
Deferred revenue	-	92,655	-	-	92,655
Due to other funds	790	-	64,369	293,336	358,495
Total liabilities	<u>790</u>	<u>116,881</u>	<u>64,369</u>	<u>293,336</u>	<u>475,376</u>
Fund balances (deficit):					
Restricted	-	98,878	-	-	98,878
Unassigned	(790)	-	(64,369)	(293,336)	(358,495)
Total fund balances (deficit)	<u>(790)</u>	<u>98,878</u>	<u>(64,369)</u>	<u>(293,336)</u>	<u>(259,617)</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 215,759</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 215,759</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP
 FEDERATED STATES OF MICRONESIA
 NONMAJOR GOVERNMENTAL FUNDS
 CAPITAL PROJECTS FUNDS

Combining Statement of Revenues, Expenditures By Function,
 and Changes in Fund Balances (Deficit)
 Year Ended September 30, 2012

	F51	F53	F60	F61	
	Compact Capital Projects	CFSM Capital Projects	Yap State Public Projects	Yap Water Development Projects Revolving	Total
Revenues:					
CFSM grants	\$ -	\$ 615,885	\$ -	\$ -	\$ 615,885
Fees and charges	-	-	-	64,086	64,086
Total revenues	<u>-</u>	<u>615,885</u>	<u>-</u>	<u>64,086</u>	<u>679,971</u>
Expenditures by function:					
Current:					
General government	-	615,885	-	-	615,885
Debt service	-	-	-	82,569	82,569
Total expenditures	<u>-</u>	<u>615,885</u>	<u>-</u>	<u>82,569</u>	<u>698,454</u>
Net change in fund balances (deficit)	-	-	-	(18,483)	(18,483)
Fund balances (deficit) at the beginning of the year	<u>(790)</u>	<u>98,878</u>	<u>(64,369)</u>	<u>(274,853)</u>	<u>(241,134)</u>
Fund balances (deficit) at the end of the year	<u><u>\$ (790)</u></u>	<u><u>\$ 98,878</u></u>	<u><u>\$ (64,369)</u></u>	<u><u>\$ (293,336)</u></u>	<u><u>\$ (259,617)</u></u>

See Accompanying Independent Auditors' Report.

STATE OF YAP
 FEDERATED STATES OF MICRONESIA
 NONMAJOR GOVERNMENTAL FUNDS
 CAPITAL PROJECTS FUNDS

Combining Statement of Revenues, Expenditures By Account,
 and Changes in Fund Balances (Deficit)
 Year Ended September 30, 2012

	F51	F53	F60	F61	
	Compact Capital Projects	CFSM Capital Projects	Yap State Public Projects	Yap Water Development Projects Revolving	Total
Revenues:					
CFSM grants	\$ -	\$ 615,885	\$ -	\$ -	\$ 615,885
Fees and charges	-	-	-	64,086	64,086
Total revenues	<u>-</u>	<u>615,885</u>	<u>-</u>	<u>64,086</u>	<u>679,971</u>
Expenditures by account:					
Salaries and wages	-	20,854	-	-	20,854
Grants and subsidies	-	177,383	-	-	177,383
Contractual services	-	288,287	-	-	288,287
Travel	-	312	-	-	312
Capital outlay	-	23,559	-	-	23,559
Repairs and maintenance	-	4,924	-	-	4,924
Freight	-	10,000	-	-	10,000
POL	-	48,305	-	-	48,305
Principal repayment	-	-	-	57,022	57,022
Interest payments	-	-	-	25,547	25,547
Other	-	42,261	-	-	42,261
Total expenditures	<u>-</u>	<u>615,885</u>	<u>-</u>	<u>82,569</u>	<u>698,454</u>
Net change in fund balances (deficit)	-	-	-	(18,483)	(18,483)
Fund balances (deficit) at the beginning of the year	<u>(790)</u>	<u>98,878</u>	<u>(64,369)</u>	<u>(274,853)</u>	<u>(241,134)</u>
Fund balances (deficit) at the end of the year	<u>\$ (790)</u>	<u>\$ 98,878</u>	<u>\$ (64,369)</u>	<u>\$ (293,336)</u>	<u>\$ (259,617)</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Foreign Assistance Grants Fund

Combining Balance Sheet
September 30, 2012

	F6	F10	F11	F12	F13	F14	F15	F16	F18	F19	F20	F21	F22	F23	F25	
	Section 221(b) Special Block Grant	Education Sector	Health Sector	Environment Sector	Private Sector Development	Capacity Building Sector	Supplemental Education	ERA Sector	Infrastructure Maintenance	Infrastructure	U.S. Grants through FSM	Direct U.S. Grants	FEMA Grants	Non U.S. Grants	CFSM Grants	Total
ASSETS																
Investment pool	\$ 3,380,592	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,380,592
Receivables:																
Federal agencies	-	9,093	154	-	15,769	-	-	-	120,042	-	107,787	(9,445)	9,705	-	5,443	258,548
CFSM	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	18,600	18,600
Due from other funds	-	-	406,229	60,699	-	929,033	554,302	22,996	619,303	997,128	473,693	151,440	1,929,033	-	54,625	6,198,481
Advances	-	133,907	122,211	7,068	4,808	9,585	125,004	1,972	-	-	-	-	-	-	-	404,555
	<u>\$ 3,380,592</u>	<u>\$ 143,000</u>	<u>\$ 528,594</u>	<u>\$ 67,767</u>	<u>\$ 20,577</u>	<u>\$ 938,618</u>	<u>\$ 679,306</u>	<u>\$ 24,968</u>	<u>\$ 739,345</u>	<u>\$ 997,128</u>	<u>\$ 581,480</u>	<u>\$ 141,995</u>	<u>\$ 1,938,738</u>	<u>\$ -</u>	<u>\$ 78,668</u>	<u>\$ 10,260,776</u>
LIABILITIES AND FUND BALANCES (DEFICIT)																
Liabilities:																
Accounts payable	\$ 1,098	\$ 119,209	\$ 94,703	\$ 10,132	\$ 25,019	\$ 25,076	\$ 100,160	\$ 5,177	\$ 8,498	\$ -	\$ 55,807	\$ 31,336	\$ 21,547	\$ 12,881	\$ 10,798	\$ 521,441
Other liabilities and accruals	12,636	37,668	28,548	3,451	7,844	3,543	15,667	720	-	-	25,300	3,743	228	-	1,954	141,302
Deferred revenue	-	-	29,720	101,621	-	136,258	173,744	19,071	-	752,243	-	64,000	1,916,691	279,920	-	3,473,268
Due to other funds	1,574,142	1,138,753	-	-	177,836	-	-	-	-	-	-	-	-	227,427	-	3,118,158
Total liabilities	<u>1,587,876</u>	<u>1,295,630</u>	<u>152,971</u>	<u>115,204</u>	<u>210,699</u>	<u>164,877</u>	<u>289,571</u>	<u>24,968</u>	<u>8,498</u>	<u>752,243</u>	<u>81,107</u>	<u>99,079</u>	<u>1,938,466</u>	<u>520,228</u>	<u>12,752</u>	<u>7,254,169</u>
Fund balances (deficit):																
Restricted	1,642,716	-	375,623	-	-	773,741	389,735	-	730,847	244,885	500,373	42,916	272	-	65,916	4,767,024
Committed	150,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	150,000
Unassigned	-	(1,152,630)	-	(47,437)	(190,122)	-	-	-	-	-	-	-	-	(520,228)	-	(1,910,417)
Total fund balances (deficit)	<u>1,792,716</u>	<u>(1,152,630)</u>	<u>375,623</u>	<u>(47,437)</u>	<u>(190,122)</u>	<u>773,741</u>	<u>389,735</u>	<u>-</u>	<u>730,847</u>	<u>244,885</u>	<u>500,373</u>	<u>42,916</u>	<u>272</u>	<u>(520,228)</u>	<u>65,916</u>	<u>3,006,607</u>
Total liabilities and fund balances	<u>\$ 3,380,592</u>	<u>\$ 143,000</u>	<u>\$ 528,594</u>	<u>\$ 67,767</u>	<u>\$ 20,577</u>	<u>\$ 938,618</u>	<u>\$ 679,306</u>	<u>\$ 24,968</u>	<u>\$ 739,345</u>	<u>\$ 997,128</u>	<u>\$ 581,480</u>	<u>\$ 141,995</u>	<u>\$ 1,938,738</u>	<u>\$ -</u>	<u>\$ 78,668</u>	<u>\$ 10,260,776</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Foreign Assistance Grants Fund

Combining Statement of Revenues, Expenditures by Function, and Changes in Fund Balances (Deficit)
Year Ended September 30, 2012

	F6	F10	F11	F12	F13	F14	F15	F16	F18	F19	F20	F21	F22	F23	F25	Total
Section 221(b)	Special Block Grant	Education Sector	Health Sector	Environment Sector	Private Sector Development	Capacity Building Sector	Supplemental Education	ERA Sector	Infrastructure Maintenance	Infrastructure	U.S. Grants through FSM	Direct U.S. Grants	FEMA Grants	Non U.S. Grants	CFSM Grants	Total
Revenues:																
Compact funding	\$ -	\$ 3,784,173	\$ 3,771,887	\$ 343,380	\$ 680,338	\$ 417,659	\$ 1,624,669	\$ 110,761	\$ 120,042	\$ 335,505	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,188,414
Federal contributions and other grants	-	-	-	-	-	-	-	-	-	-	1,431,311	925,390	3,283	-	-	2,359,984
CFSM grants	-	-	-	-	-	-	-	-	-	-	-	-	-	62,809	37,818	100,627
Departmental charges	-	-	-	-	-	-	-	-	-	-	-	17,192	-	-	-	17,192
Other	-	-	-	-	-	-	-	-	543	-	-	-	-	-	-	543
	<u>-</u>	<u>3,784,173</u>	<u>3,771,887</u>	<u>343,380</u>	<u>680,338</u>	<u>417,659</u>	<u>1,624,669</u>	<u>110,761</u>	<u>120,585</u>	<u>335,505</u>	<u>1,431,311</u>	<u>942,582</u>	<u>3,283</u>	<u>62,809</u>	<u>37,818</u>	<u>13,666,760</u>
Expenditures by function:																
Current:																
General government	196	-	-	-	-	417,659	-	110,761	-	-	1,432,664	925,390	3,283	32,331	38,042	2,960,326
Economic development	-	-	-	-	680,338	-	-	-	-	-	-	-	-	-	-	680,338
Education	-	3,784,173	-	-	-	-	1,624,669	-	-	-	-	-	-	-	-	5,408,842
Public Works and transportation	-	-	-	-	-	-	-	-	443,797	335,505	-	-	-	-	-	779,302
Health services	-	-	3,771,887	-	-	-	-	-	-	-	-	-	-	-	-	3,771,887
Boards and commissions	-	-	-	343,380	-	-	-	-	-	-	-	-	-	-	-	343,380
	<u>196</u>	<u>3,784,173</u>	<u>3,771,887</u>	<u>343,380</u>	<u>680,338</u>	<u>417,659</u>	<u>1,624,669</u>	<u>110,761</u>	<u>443,797</u>	<u>335,505</u>	<u>1,432,664</u>	<u>925,390</u>	<u>3,283</u>	<u>32,331</u>	<u>38,042</u>	<u>13,944,075</u>
Total expenditures	<u>196</u>	<u>3,784,173</u>	<u>3,771,887</u>	<u>343,380</u>	<u>680,338</u>	<u>417,659</u>	<u>1,624,669</u>	<u>110,761</u>	<u>443,797</u>	<u>335,505</u>	<u>1,432,664</u>	<u>925,390</u>	<u>3,283</u>	<u>32,331</u>	<u>38,042</u>	<u>13,944,075</u>
Net change in fund balances (deficit)	<u>(196)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,353)</u>	<u>17,192</u>	<u>272</u>	<u>30,478</u>	<u>(224)</u>	<u>46,169</u>
Fund balances (deficit) at the beginning of the year	1,792,912	(710,372)	600,326	(185,552)	(67,437)	881,175	210,997	-	730,847	244,885	500,373	(483,241)	1,916,691	(41,742)	66,140	5,456,002
Prior period adjustments	-	(442,258)	(224,703)	138,115	(122,685)	(107,434)	178,738	-	-	-	1,353	508,965	(1,916,691)	(508,964)	-	(2,495,564)
Fund balances (deficit) at the beginning of the year, as restated	<u>1,792,912</u>	<u>(1,152,630)</u>	<u>375,623</u>	<u>(47,437)</u>	<u>(190,122)</u>	<u>773,741</u>	<u>389,735</u>	<u>-</u>	<u>730,847</u>	<u>244,885</u>	<u>501,726</u>	<u>25,724</u>	<u>-</u>	<u>(550,706)</u>	<u>66,140</u>	<u>2,960,438</u>
Fund balances (deficit) at the end of the year	<u>\$ 1,792,716</u>	<u>\$ (1,152,630)</u>	<u>\$ 375,623</u>	<u>\$ (47,437)</u>	<u>\$ (190,122)</u>	<u>\$ 773,741</u>	<u>\$ 389,735</u>	<u>\$ -</u>	<u>\$ 730,847</u>	<u>\$ 244,885</u>	<u>\$ 500,373</u>	<u>\$ 42,916</u>	<u>\$ 272</u>	<u>\$ (520,228)</u>	<u>\$ 65,916</u>	<u>\$ 3,006,607</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Foreign Assistance Grants Fund

Combining Statement of Revenues, Expenditures by Account, and Changes in Fund Balances (Deficit)
Year Ended September 30, 2012

	F6	F10	F11	F12	F13	F14	F15	F16	F18	F19	F20	F21	F22	F23	F25	Total
	Section 221(b) Special Block Grant	Education Sector	Health Sector	Environment Sector	Private Sector Development	Capacity Building Sector	Supplemental Education	ERA Sector	Infrastructure Maintenance	Infrastructure	U.S. Grants through FSM	Direct U.S. Grants	FEMA Grants	Non U.S. Grants	CFSM Grants	
Revenues:																
Compact funding	\$ -	\$ 3,784,173	\$ 3,771,887	\$ 343,380	\$ 680,338	\$ 417,659	\$ 1,624,669	\$ 110,761	\$ 120,042	\$ 335,505	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,188,414
Federal contributions and other grants	-	-	-	-	-	-	-	-	-	-	1,431,311	925,390	3,283	-	-	2,359,984
CFSM grants	-	-	-	-	-	-	-	-	-	-	-	-	-	62,809	37,818	100,627
Department charges	-	-	-	-	-	-	-	-	-	-	-	17,192	-	-	-	17,192
Other	-	-	-	-	-	-	-	-	543	-	-	-	-	-	-	543
	<u>-</u>	<u>3,784,173</u>	<u>3,771,887</u>	<u>343,380</u>	<u>680,338</u>	<u>417,659</u>	<u>1,624,669</u>	<u>110,761</u>	<u>120,585</u>	<u>335,505</u>	<u>1,431,311</u>	<u>942,582</u>	<u>3,283</u>	<u>62,809</u>	<u>37,818</u>	<u>13,666,760</u>
Expenditures by account:																
Salaries and wages	-	1,927,152	1,397,032	198,538	309,360	216,462	851,893	33,031	1,475	564	912,564	477,431	2,292	11,045	3,338	6,342,177
Grants and subsidies	-	-	-	-	-	-	-	-	-	-	4,599	-	-	-	-	4,599
Utilities	-	406,339	444,937	22,653	96,833	3,368	43,857	-	-	-	15,029	62,508	203	-	2,939	1,098,666
Contractual services	-	77,307	110,416	15,107	80,545	180	-	-	228,404	80,856	13,924	16,592	-	7,000	2,644	632,975
Supplies and materials	-	323,999	74,734	15,151	23,162	17,161	148,580	2,740	-	-	57,464	39,447	-	467	4,884	707,789
Construction	-	-	-	-	-	-	-	-	87,999	219,484	-	19,018	-	-	-	326,501
Scholarship and training	-	506,275	-	-	-	-	-	-	-	-	3,560	-	-	-	-	509,835
Travel	196	45,069	111,413	18,032	65,401	74,063	162,848	28,512	1,478	2,281	209,604	66,429	-	-	(1,052)	784,274
Capital outlay	-	97,802	303,169	1,700	466	3,907	111,636	10,275	111,382	32,320	25,829	82,650	-	8,759	13,609	803,504
Rentals	-	-	300	5,486	-	-	-	-	-	-	250	-	-	-	-	6,036
Food stuffs	-	60,297	34,615	-	-	-	116,329	-	-	-	762	-	386	-	-	212,389
Communications	-	35,655	13,141	20,330	27,695	9,193	13,828	7,898	-	-	5,474	6,167	228	-	-	139,609
Printing and reproduction	-	-	975	253	16,136	1,760	-	-	-	-	8,281	17,130	-	-	-	44,535
Medical supplies	-	-	1,045,404	-	-	-	-	-	-	-	2,382	76,915	-	-	-	1,124,701
Repairs and maintenance	-	90,102	32,673	5,695	13,457	853	14,563	318	-	-	4,966	18,456	25	25	2,487	183,620
Freight	-	7,644	32,008	-	956	6	4,170	-	-	-	-	-	-	-	-	44,784
Professional services	-	-	10,000	-	-	32,098	80,927	22,639	-	-	-	500	-	3,400	-	149,564
POL	-	74,219	55,791	44,963	19,424	688	29,618	-	200	-	144,431	6,975	564	276	4,986	382,135
Allowances	-	-	1,913	80	-	-	1,440	-	-	-	3,886	9,131	-	-	-	14,537
Leased housing	-	-	-	-	-	8,464	-	-	-	-	5,950	-	-	-	-	16,327
Other	-	132,313	103,666	578	21,417	49,456	44,980	5,348	12,859	-	13,709	26,041	(415)	1,359	4,207	415,518
Total expenditures	<u>196</u>	<u>3,784,173</u>	<u>3,771,887</u>	<u>343,380</u>	<u>680,338</u>	<u>417,659</u>	<u>1,624,669</u>	<u>110,761</u>	<u>443,797</u>	<u>335,505</u>	<u>1,432,664</u>	<u>925,390</u>	<u>3,283</u>	<u>32,331</u>	<u>38,042</u>	<u>13,944,075</u>
Net change in fund balances (deficit)	<u>(196)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,353)</u>	<u>17,192</u>	<u>272</u>	<u>30,478</u>	<u>(224)</u>	<u>46,169</u>
Fund balances (deficit) at the beginning of year, as previously reported	1,792,912	(710,372)	600,326	(185,552)	(67,437)	881,175	210,997	-	730,847	244,885	500,373	(483,241)	1,916,691	(41,742)	66,140	5,456,002
Prior period adjustments	-	(442,258)	(224,703)	138,115	(122,685)	(107,434)	178,738	-	-	-	1,353	508,965	(1,916,691)	(508,964)	-	(2,495,564)
Fund balances (deficit) at the beginning of year, as restated	<u>1,792,912</u>	<u>(1,152,630)</u>	<u>375,623</u>	<u>(47,437)</u>	<u>(190,122)</u>	<u>773,741</u>	<u>389,735</u>	<u>-</u>	<u>730,847</u>	<u>244,885</u>	<u>501,726</u>	<u>25,724</u>	<u>-</u>	<u>(550,706)</u>	<u>66,140</u>	<u>2,960,438</u>
Fund balances (deficit) at the end of year	<u>\$ 1,792,716</u>	<u>\$ (1,152,630)</u>	<u>\$ 375,623</u>	<u>\$ (47,437)</u>	<u>\$ (190,122)</u>	<u>\$ 773,741</u>	<u>\$ 389,735</u>	<u>\$ -</u>	<u>\$ 730,847</u>	<u>\$ 244,885</u>	<u>\$ 500,373</u>	<u>\$ 42,916</u>	<u>\$ 272</u>	<u>\$ (520,228)</u>	<u>\$ 65,916</u>	<u>\$ 3,006,607</u>

See Accompanying Independent Auditors' Report.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Sebastian Anafel
Governor, State of Yap
Federated States of Micronesia:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Yap as of and for the year ended September 30, 2012, which collectively comprise the State of Yap's basic financial statements and have issued our report thereon dated June 28, 2013. Our report includes an explanatory paragraph concerning the correction of an error, a reference to other auditors, and a modification for the omission of certain component units. Except as discussed in the previous sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Public Transportation System, as described in our report on the State of Yap's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors.

For purposes of this report, our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants, and other matters did not include the discretely presented component units, which were all audited by us. We have issued separate reports on our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for these entities. Other auditors issued a separate report on their consideration of internal control over financial reporting and their tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the Public Transportation System. The findings, if any, included in that report are not included herein.

Internal Control Over Financial Reporting

Management of the State of Yap is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the State of Yap's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Yap's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of Yap's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs (pages 80 through 88), we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

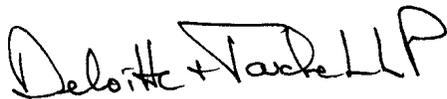
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned costs as items 2012-3 through 2012-6 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Yap's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The State of Yap's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the State of Yap's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Honorable Members of the Yap State Legislature, others within the entity, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and is not intended to be and should not be used by anyone other than these specified parties.



June 28, 2013

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133 AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Honorable Sebastian Anafel
Governor, State of Yap
Federated States of Micronesia:

Compliance

We have audited the State of Yap's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the State of Yap's major federal programs for the year ended September 30, 2012. The State of Yap's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (pages 80 through 88). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State of Yap's management. Our responsibility is to express an opinion on the State of Yap's compliance based on our audit.

As discussed in Note 2B to the Schedule of Expenditures of Federal Awards, the State of Yap's basic financial statements include the operations of certain entities whose federal awards are not included in the Schedule of Expenditures of Federal Awards for the year ended September 30, 2012. Our audit, described below, did not include the operations of the entities identified in Note 2B as these entities conducted separate audits in accordance with OMB Circular A-133, if required.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State of Yap's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State of Yap's compliance with those requirements.

In our opinion, the State of Yap complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2012-1 and 2012-2.

Internal Control Over Compliance

Management of the State of Yap is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State of Yap's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State of Yap's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

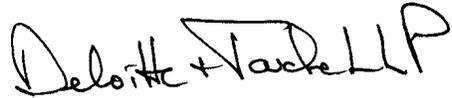
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs as items 2012-1 and 2012-2. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Yap as of and for the year ended September 30, 2012, and have issued our report thereon dated June 28, 2013, which contained an adverse opinion on those financial statements. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the State of Yap's basic financial statements. We did not audit the financial statements of the Public Transportation System which represents 100% of the assets, net assets, and revenues of the business-type activities, and 50%, 112%, and 24%, respectively, of the assets, net assets/fund balances, and revenues of the State's aggregate remaining fund information. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Public Transportation System is based on the report of the other auditors. The accompanying Schedule of Expenditures of Federal Awards (pages 77 and 78) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

The State of Yap's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the State of Yap's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the Honorable Members of the Yap State Legislature, others within the entity, federal awarding agencies, pass-through entities, cognizant audit and other federal agencies, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

June 28, 2013

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards
Foreign Assistance Grants Fund
Year Ended September 30, 2012

Grantor Program Title	CFDA No./ Grant No.	2012 Fiscal Year Expenditures
<u>U. S. Department of Agriculture:</u>		
Passed-Through Federated States of Micronesia:		
Cooperative Forestry Assistance	10.664	68,915
Total U. S. Department of Agriculture		68,915
<u>U. S. Department of the Interior:</u>		
Passed-Through Federated States of Micronesia:		
Historic Prevention Fund Grants-In-Aid	15.904	32,612
Economic, Social and Political Development of the Territories:		
Technical Assistance	15.875	112,436
Compact of Free Association, Sector Grants	15.875	11,512,364
Total U. S. Department of the Interior		11,657,412
<u>U. S. Small Business Administration</u>		
Passed-Through Federated States of Micronesia:		
8(a) Business Development Program	59.006	29,521
Total U. S. Small Business Administration		29,521
<u>U. S. Department of Education:</u>		
Passed-Through Federated States of Micronesia:		
Special Education-Grants to States	84.027A	672,220
Special Education-Grants to States	84.027B	706
Career and Technical Education-Basic Grants to States	84.048B	315
Bilingual Education-Program Development and Implementation Grants	84.288	409
Total U. S. Department of Education		673,650
<u>U. S. Department of Health and Human Services:</u>		
Direct Programs:		
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)	93.224	827,655
ARRA- Grants to Health Center Programs	93.703	29,810
Total Direct Programs		857,465
Passed-Through Federated States of Micronesia:		
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	21,544
Family Planning-Services	93.217	33,079
Substance Abuse and Mental Health Services-Projects of Regional and National Significance	93.243	41,022
Universal Newborn Hearing Screening	93.251	43
Immunization Cooperative Agreements	93.268	202,385
The Affordable Care Act: CDC and Prevention - Investigations and Technical Assistance	93.283	107,391
ARRA- Prevention and Wellness- State, Territories and Pacific Islands	93.723	8,306
HIV Care Formula Grants	93.917	788
HIV Prevention Activities - Health Department Based	93.940	22,635
HIV/AIDS Surveillance	93.944	620
Block Grants for Prevention and Treatment of Substance Abuse	93.959	51,603
Preventive Health Services- Sexually Transmitted Diseases Control Grants	93.977	1,514
Maternal and Child Health Services Block Grant to the States	93.994	70,238
Total Passed-Through Federated States of Micronesia		561,168
Total U. S. Department of Health and Human Services		1,418,633

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Foreign Assistance Grants Fund
Year Ended September 30, 2012

Grantor Program Title	CFDA No./ Grant No.	2012 Fiscal Year Expenditures
<u>U. S. Department of Homeland Security:</u>		
Passed-Through Federated States of Micronesia:		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	3,282
Total U. S. Department of Homeland Security		<u>3,282</u>
<u>U. S. Department of State:</u>		
Direct: Preservation/Chants/Dance/Stories	19.S-FM200-11-GR-003	22,289
Total U. S. Department of State		<u>22,289</u>
Total Federal Awards		<u>\$ 13,873,702</u>
Reconciliation to financial statements:		
Foreign Assistance Grant Fund		\$ 13,944,075
Less: CFSM Grants Fund		(32,331)
		<u>(38,042)</u>
		<u>\$ 13,873,702</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2012

(1) Scope of Review

The Government of the State of Yap is a governmental entity governed by its own Constitution. All significant operations of the State are included in the scope of the OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior has been designated as the State's cognizant agency for the Single Audit.

Programs Subject to Single Audit

- U.S. Department of Agriculture
- U.S. Department of Education
- U.S. Department of Health and Human Services
- U.S. Department of Homeland Security
- U.S. Department of the Interior
- U.S. Department of State
- U.S. Small Business Administration

(2) Summary of Significant Accounting Policies

A. Basis of Accounting

For purposes of this report, certain accounting procedures were followed which help illustrate the expenditures of the individual programs. All expenses and capital outlays are reported as expenditures on the accrual basis of accounting.

B. Single Audit Reporting Entity

For purposes of complying with The Single Audit Act of 1984, as amended in 1996, the State's reporting entity is defined in Note 1A to its September 30, 2012 basic financial statements, except that all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule of Expenditures of Federal Awards presents the federal award programs administered by the State, as defined above, for the year ended September 30, 2012.

C. CFDA #15.875

CFDA #15.875 represents funding from the Office of Insular Affairs (OIA), U. S. Department of the Interior. Funding from this source is subject to varying rules and regulations since OIA administers the Compact of Free Association, which is a treaty, and is not a federal program. The Compact is comprised of various funded programs, each with separate compliance requirements. To maximize audit coverage of OIA funding, the OIG has recommended that programs administered under CFDA #15.875 be grouped by like compliance requirements and such groupings be separately evaluated as major programs.

(3) Component Units

The Yap State Public Service Corporation (YSPSC), a discretely presented component unit of the State of Yap, separately satisfies the requirements of OMB Circular A-133.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

Part I - Summary of Auditors' Results

Financial Statements

- | | |
|--|-------------------------|
| 1. Type of auditors' report issued: | Adverse and Unqualified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | Yes |
| 3. Significant deficiency(ies) identified? | None reported |
| 4. Noncompliance material to financial statements noted? | No |

Federal Awards

Internal control over major programs:

- | | |
|---|-------------|
| 5. Material weakness(es) identified? | No |
| 6. Significant deficiency(ies) identified? | Yes |
| 7. Type of auditors' report issued on compliance for major programs: | Unqualified |
| 8. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | Yes |
| 9. Identification of major programs: | |

<u>CFDA Number</u>	<u>Federal Program</u>
15.875	Economic, Social and Political Development of the Territories – Compact of Free Association Sector Grants
84.027	Special Education – Grants to State
93.224	Consolidated Health Center

- | | |
|--|------------|
| 10. Dollar threshold used to distinguish between Type A and Type B programs: | \$ 416,211 |
| 11. Auditee qualified as low-risk auditee? | No |

Part II - Financial Statement Findings Section

<u>Finding Number</u>	<u>Findings</u>
2012-3	Prior Period Adjustments
2012-4	Accounts Payable
2012-5	Accounts Receivables
2012-6	GASB 33 Tax accruals

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Part III - Federal Award Findings and Questioned Cost Section

<u>Finding Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
2012-1	Contract Provisions	\$ -
2012-2	Allowable Costs/Cost Principles	\$ 3,661

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No: 2012-1
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Grant Number: Compact Sector Grants
Requirement: Contract Provisions
Questioned Costs: \$0

Criteria: For all contracts, the following provisions should be included as applicable:

- (i) For contracts in excess of \$100,000, administrative, contractual, or legal remedies in instances where contractors violate or breach contract terms, and the provisions of such sanctions and penalties as appropriate;
- (ii) For contracts in excess of \$100,000, termination for cause and for convenience by the Grantee or Sub-Grantee including the manner by which it will be effected and the basis for settlement;
- (iii) Compliance with local statutes regarding kickbacks and corrupt practices;
- (iv) Access by the Government of the Federated States of Micronesia and its Sub-Grantees, the Government of the United States, or any other duly authorized representatives to any books, documents, papers, and records of the contractor which are directly pertinent to the contract for the purpose of making audit, examination, excerpts, and transcripts;
- (v) Retention of all required records for three years after Grantees and Sub-Grantees make final payments and all other pending matters are closed; and
- (vi) Compliance with all applicable standards, orders, or requirements issued under local environmental laws.

Condition: Certain contracts entered into by Yap State Government do not include all required contract provisions.

Also, for one contract, the project term or duration of the project was not adhered to. The project was completed some 100 days after the last authorized extended period. The contractor was not fined for not completing the project on time.

Cause: There appears to be lack of controls over complying with the criteria.

Effect: The State appears to be in noncompliance with the criteria.

The conditions cited relate to contract provisions and not to contractual expenditures and therefore, no questioned costs result from this finding.

Prior Year Status: This condition was cited in the 2010 and 2011 Single Audits.

Recommendation: We recommend that the State strengthen its controls over compliance with the criteria.

**STATE OF YAP
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No: 2012-1, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Grant Number: Compact Sector Grants
Requirement: Contract Provisions
Questioned Costs: \$0

Auditee Response and Corrective Action Plan: Attempts to address this repeated finding resulted in the Yap Attorney General's office (OAG) issuing a Memorandum on 4/26/12, addressing all Yap Government Bodies using Compact Funds about required language for purchase and service contracts.

The contracts referred to in this Finding were executed before the issuance of the memo by OAG and were not amended afterwards to incorporate the required language. It is our understanding that contracts meeting the specified threshold and category that were executed after OAG's memo was distributed to incorporate the required language.

The Office of Administrative Services is working with the Attorney General's Office to implement the wording in all contracts starting in FY14. The staff charged with certifying contracts will ensure that the required provisions are included in contract.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-2
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.224 Consolidated Health Centers
Requirement: Allowable Costs/Cost Principles
Questioned Costs: \$3,660

Criteria: In accordance with applicable allowable costs/cost principles, expenditures should be necessary and reasonable for program needs and should be in accordance with program requirements.

Condition: For 1 (or 4%) of 26 transactions tested, a traveler did not complete a trip to Honolulu. Instead, travel occurred to Guam and then back to Yap. No travel claim or report with boarding passes was submitted. Reimbursement of non-airfare related travel cost did not occur. However, the non-refundable ticket cost of \$3,660 was charged to the program.

Cause: There appears to be a lack of controls over compliance with criteria.

Effect: The effect of this condition is potential noncompliance with the criteria. The projection of the questioned cost over the population is greater than the threshold and therefore, this cost is questioned.

Recommendation: We recommend that the State consider absorbing this cost in its general fund.

Auditee Response and Corrective Action Plan: This was an instance of a traveler not filing an expense report and soon resigning from their position. Any amount that can not be refunded or collected from the traveler will have to be charged against the general fund.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No. 2012-3 - Prior Period Adjustments

Criteria: Prior audit adjustments should be properly reflected in the underlying accounting records.

Condition: Prior audit adjustments have not been properly reflected in the underlying accounting records. As a result, interfund activity had to be substantially adjusted to reflect the actual conditions imposed by the prior adjustments. This process was a lengthy process and took substantial resources.

Cause: The cause of this condition was that prior adjustments were not correctly reflected in the accounting records.

Effect: The effect of this condition is that the interim financial statements did not correctly reflect the State's financial position.

Recommendation: The State should perform a thorough review to confirm that all prior year proposed adjustments are recorded.

Auditee Response and Corrective Action Plan: Prior period adjustments will be reviewed, recorded, and confirmed, in writing, by the Financial Advisor and/or the Chief Accountant 15 days after each annual audit is published.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No. 2012-4 - Accounts Payable

Criteria: Accounts payable should be correctly accrued as of each fiscal year end.

Condition: Accounts payable did not appear to have been correctly accrued as of September 30, 2012. Expenditures approximating \$261,000 were not correctly accrued and this matter was proposed for correction through the audit process.

Effect: The effect of this condition was incorrectly accrued payables as of September 30, 2012.

Cause: The cause of this condition appears to be due to the amount of effort expended on clearing the matter set forth in condition 2012-3.

Recommendation: A thorough review of disbursement transactions from October 1 through December 31 of each year should occur to capture all relevant payables. The resulting listing should be updated for additional payables noted per reviews of disbursements that occur after January 1 of each year.

Auditee Response and Corrective Action Plan: The Financial Advisor and the Chief Accountant will develop a check list of needed procedures, inclusive of disbursement transactions, to be undertaken at year-end to ensure that such listings are updated.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No. 2012-5 - Accounts Receivable

Criteria: Timely collections of grant expenditures should occur to reimburse the General Fund.

Condition: It does not appear that collection of certain Compact Sector and other grants has occurred.

Effect: If these receivables are uncollected, the General Fund will bear the underlying costs.

Cause: The cause of this condition appears due possibly to prior audit adjustments not being timely recorded in the financial statements.

Recommendation: An analysis of prior year Sector and other grant fund expenditures should be undertaken to establish if recovery of the non-collected balance can occur.

Auditee Response and Corrective Action Plan: As mentioned above, the Financial Advisor and Chief Accountant will develop a checklist of procedures to ensure that needed reviews of prior year expenditures and transactions are established for routine tasks by the staff accountants.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No 2012-6 – GASB 33 Tax Accruals

Criteria: The FSM revenue share should be correctly accrued as of year-end for revenues collected by and due from the FSM National Government prior as of or prior to September 30 each year but which are paid to the State in the succeeding year.

Condition: It appears that the State recognized approximately \$526,000 of revenue sharing in fiscal year 2012 that should have been recognized in 2011.

Cause: The cause of this condition may be due to the lack of a year-end cut off checklist that would assist the State in recording all appropriate year-end adjustments.

Effect: The effect of this condition is that interim financial statements were incorrect but this matter was corrected through a proposed audit adjustment.

Recommendation: We recommend that the State appropriately accrue FSM revenue sharing at the end of each fiscal year.

Auditee Response and Corrective Action Plan: As indicated above, the Financial Advisor and Chief Accountant will develop a checklist of procedures to ensure that needed reviews of prior year accruals and transactions are established for routine tasks by the staff accountants.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Unresolved Prior Audit Findings and Questioned Costs
Year Ended September 30, 2012

The following is a summary of unresolved federal questioned costs for the Yap State Government:

	Questioned Costs Set Forth in Prior Audit Report <u>2011</u>	Questioned Costs Resolved in Fiscal Year <u>2012</u>	Questioned Costs at <u>September 30, 2012</u>
Unresolved Questioned Costs FY 08	\$ 69,590	\$ -	\$ 69,590
Unresolved Questioned Costs FY 09	376,295	-	376,295
Unresolved Questioned Costs FY 10	150,534	-	150,534
Unresolved Questioned Costs FY 11	<u>222,064</u>	<u>-</u>	<u>222,064</u>
	\$ <u>818,483</u>	\$ <u>-</u>	818,483
Questioned Costs FY 12			<u>3,660</u>
			\$ <u>822,143</u>

The status of prior year findings is set forth in the accompanying Schedule of Findings and Questioned Costs (pages 80 through 88).